FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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FILER

ST PAUL TRAVELERS COMPANIES INC

CIK:**86312**| IRS No.: **410518860** | State of Incorp.:**MN** | Fiscal Year End: **1231**
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SIC: **6331** Fire, marine & casualty insurance

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2006

or

☐ **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 St. Paul 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.)

385 Washington Street,
St. Paul, MN 55102
(Address of principal executive offices) (Zip Code)

(651) 310-7911
(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 ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☐

The number of shares of the Registrant’ s Common Stock, without par value, outstanding at July 28, 2006 was 690,929,458.

The St. Paul Travelers Companies, Inc.

Quarterly Report on Form 10-Q

For Quarterly Period Ended June 30, 2006

TABLE OF CONTENTS

Item 1. FINANCIAL STATEMENTS

THE ST. PAUL TRAVELERS COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME (Unaudited)

(in millions, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	**2005**	**2006**	**2005**
Revenues				
Premiums	**$ 5,181**	$ 5,109	**$ 10,172**	$ 10,228
Net investment income	**874**	775	**1,749**	1,540
Fee income	**153**	165	**303**	336
Net realized investment gains (losses)	**10**	(55)	**4**	(55)
Other revenues	**37**	43	**77**	93
Total revenues	**6,255**	6,037	**12,305**	12,142
Claims and expenses				
Claims and claim adjustment expenses	**3,153**	3,101	**6,195**	6,324
Amortization of deferred acquisition costs	**814**	783	**1,614**	1,593
General and administrative expenses	**866**	789	**1,660**	1,602
Interest expense	**78**	70	**154**	141
Total claims and expenses	**4,911**	4,743	**9,623**	9,660
Income from continuing operations before income taxes	**1,344**	1,294	**2,682**	2,482
Income tax expense	**374**	363	**706**	674
Income from continuing operations	**970**	931	**1,976**	1,808
Discontinued operations				
Operating loss, net of taxes	**–**	–	**–**	(665)
Gain on disposal, net of taxes	**–**	138	**–**	138
Income (loss) from discontinued operations, net of taxes	**–**	138	**–**	(527)
Net income	**$ 970**	$ 1,069	**$ 1,976**	$ 1,281
Basic earnings per share				
Income from continuing operations	**$ 1.40**	$ 1.39	**$ 2.85**	$ 2.70
Income (loss) from discontinued operations	**–**	0.20	**–**	(0.79)
Net income	**$ 1.40**	$ 1.59	**$ 2.85**	$ 1.91
Diluted earnings per share				
Income from continuing operations	**$ 1.36**	$ 1.33	**$ 2.76**	$ 2.58
Income (loss) from discontinued operations	**–**	0.19	**–**	(0.74)
Net income	**$ 1.36**	$ 1.52	**$ 2.76**	$ 1.84
Weighted average number of common shares outstanding				
Basic	**691.8**	669.5	**692.0**	668.8

Diluted	**720.4**	710.3	**720.6**	709.7

See notes to consolidated financial statements (unaudited).

THE ST. PAUL TRAVELERS COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(in millions)

	June 30, 2006 (Unaudited)	December 31, 2005
Assets		
Fixed maturities, available for sale at fair value (including $2,055 and $2,667 subject to securities lending and repurchase agreements) (amortized cost $61,091 and $58,616)	**$ 60,174**	$ 58,983
Equity securities, at fair value (cost $510 and $538)	**537**	579
Real estate	**750**	752
Mortgage loans	**112**	145
Short-term securities	**4,947**	4,802
Other investments	**3,250**	3,026
Total investments	**69,770**	68,287
Cash	**274**	337
Investment income accrued	**781**	761
Premiums receivable	**6,372**	6,124
Reinsurance recoverables	**18,812**	19,574
Ceded unearned premiums	**1,424**	1,322
Deferred acquisition costs	**1,623**	1,527
Deferred tax asset	**2,282**	2,062
Contractholder receivables	**5,470**	5,516
Goodwill	**3,441**	3,442
Intangible assets	**839**	917
Other assets	**2,798**	3,318
Total assets	**$ 113,886**	$ 113,187
Liabilities		
Claims and claim adjustment expense reserves	**$ 60,196**	$ 61,090
Unearned premium reserves	**11,303**	10,927
Contractholder payables	**5,470**	5,516
Payables for reinsurance premiums	**791**	720
Debt	**6,618**	5,850
Other liabilities	**6,456**	6,781
Total liabilities	**90,834**	90,884
Shareholders' equity		
Preferred Stock Savings Plan−convertible preferred stock (0.4 shares and 0.5 shares issued and outstanding)	**140**	153
Common stock (1,750.0 shares authorized; 691.4 and 693.4 shares issued and outstanding)	**18,259**	18,096
Retained earnings	**5,382**	3,750
Accumulated other changes in equity from nonowner sources	**(406)**	351
Treasury stock, at cost (7.4 and 1.2 shares)	**(323)**	(47)

Total shareholders' equity	**23,052**	22,303
Total liabilities and shareholders' equity	**$ 113,886**	$ 113,187

See notes to consolidated financial statements (unaudited).

THE ST. PAUL TRAVELERS COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)
(in millions)

For the six months ended June 30,	2006	2005
Convertible preferred stock–savings plan		
Balance, beginning of year	**$ 153**	$ 193
Redemptions during period	**(13)**	(20)
Balance, end of period	**140**	173
Guaranteed obligation–stock ownership plan		
Balance, beginning of year	**–**	(5)
Principal payments	**–**	5
Balance, end of period	**–**	–
Total preferred shareholders' equity	**140**	173
Common stock		
Balance, beginning of year	**18,096**	17,331
Net shares issued under employee share-based compensation plans	**75**	87
Compensation amortization under share-based plans and other	**88**	50
Balance, end of period	**18,259**	17,468
Retained earnings		
Balance, beginning of year	**3,750**	2,744
Net income	**1,976**	1,281
Dividends	**(343)**	(306)
Minority interest and other	**(1)**	13
Balance, end of period	**5,382**	3,732
Accumulated other changes in equity from nonowner sources, net of tax		
Balance, beginning of year	**351**	952
Change in net unrealized gain (loss) on investment securities	**(804)**	94
Net change in unrealized foreign currency translation and other changes	**47**	(22)
Balance, end of period	**(406)**	1,024
Treasury stock (at cost)		
Balance, beginning of year	**(47)**	(14)
Net shares reacquired related to employee share-based compensation plans	**(26)**	(14)
Treasury shares acquired – share repurchase program	**(250)**	–
Balance, end of period	**(323)**	(28)
Total common shareholders' equity	**22,912**	22,196
Total shareholders' equity	**$ 23,052**	$ 22,369
Common shares outstanding		
Balance, beginning of year	**693.4**	670.3
Net shares issued under employee share-based compensation plans	**3.6**	4.3

Treasury shares acquired − share repurchase program	**(5.6)**	−
Balance, end of year	**691.4**	674.6
Summary of changes in equity from nonowner sources		
Net income	**$ 1,976**	$ 1,281
Other changes in equity from nonowner sources, net of tax	**(757)**	72
Total changes in equity from nonowner sources	**$ 1,219**	$ 1,353

See notes to consolidated financial statements (unaudited).

THE ST. PAUL TRAVELERS COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)
(in millions)

For the six months ended June 30,	2006	2005 (1)
Cash flows from operating activities		
Net income	**$ 1,976**	$ 1,281
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss from discontinued operations, net of tax	−	527
Net realized investment (gains) losses	**(4)**	55
Depreciation and amortization	**394**	386
Deferred federal income tax expense on continuing operations	**203**	735
Amortization of deferred policy acquisition costs	**1,614**	1,593
Premiums receivable	**(248)**	(95)
Reinsurance recoverables	**1,006**	661
Deferred acquisition costs	**(1,710)**	(1,601)
Claims and claim adjustment expense reserves	**(1,646)**	(956)
Unearned premium reserves	**375**	(189)
Trading account activities	**6**	6
Excess tax benefits from share-based payment arrangements	**(6)**	−
Other	**(549)**	(672)
Net cash provided by operating activities of continuing operations	**1,411**	1,731
Net cash provided by operating activities of discontinued operations	−	24
Net cash provided by operating activities	**1,411**	1,755
Cash flows from investing activities		
Proceeds from maturities of investments:		
Fixed maturities	**2,650**	2,421
Mortgage loans	**29**	6
Proceeds from sales of investments:		
Fixed maturities	**3,174**	2,711
Equity securities	**126**	112
Purchases of investments:		
Fixed maturities	**(8,049)**	(8,566)
Equity securities	**(64)**	(22)
Mortgage loans	−	(9)
Real estate	**(14)**	(22)
Short-term securities (purchases) sales, net	**(93)**	125

Other investments, net	**120**	452
Securities transactions in course of settlement	**509**	463
Other	**(122)**	(48)
Net cash used in investing activities of continuing operations	**(1,734)**	(2,377)
Net cash used in investing activities of discontinued operations	**–**	(20)
Net cash used in investing activities	**(1,734)**	(2,397)
Cash flows from financing activities		
Payment of debt	**(4)**	(481)
Issuance of debt	**786**	–
Dividends to shareholders	**(343)**	(307)
Issuance of common stock–employee share options	**58**	61
Excess tax benefits from share-based payment arrangements	**6**	–
Treasury stock acquired–share repurchase program	**(230)**	–
Treasury stock acquired–net employee share-based compensation	**(17)**	(14)
Other	**1**	–
Net cash provided by (used in) financing activities of continuing operations	**257**	(741)
Net cash provided by financing activities of discontinued operations	**–**	4
Net cash provided by (used in) financing activities	**257**	(737)
Effect of exchange rate changes on cash	**3**	(4)
Elimination of cash provided by discontinued operations	–	(8)
Net proceeds from the sale of discontinued operations	–	1,867
Net increase (decrease) in cash	**(63)**	476
Cash at beginning of period	**337**	262
Cash at end of period	**$ 274**	$ 738
Supplemental disclosure of cash flow information		
Income taxes paid	**$ 253**	$ 371
Interest paid	**$ 164**	$ 179

(1) See note 2.

See notes to consolidated financial statements (unaudited).

THE ST. PAUL 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 St. Paul 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, consisting of normal recurring 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. Certain reclassifications have been made to the 2005 financial statements to conform to the 2006 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 2005 Annual Report on Form 10-K.

In March 2005, the Company and Nuveen Investments, Inc. (Nuveen Investments), the Company' s asset management subsidiary, jointly announced that the Company would implement a program to divest its 78% equity interest in Nuveen Investments. The Company completed the divestiture through a series of transactions in the second and third quarters of 2005. The Company' s share of Nuveen Investments' results prior to divestiture was classified as discontinued operations on the consolidated statement of income. See note 2.

Adoption of New Accounting Standards

Statement of Financial Accounting Standards No. 123R - Share-Based Payment

In December 2004, the Financial Accounting Standards Board (FASB) issued Revised Statement of Financial Accounting Standards No. 123, *Share-Based Payment* (FAS 123R), an amendment to FAS 123, *Accounting for Stock-Based Compensation,* and a replacement of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related implementation guidance. FAS 123R requires public entities to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award and to recognize that cost over the requisite service period.

FAS 123R, which became effective January 1, 2006, requires entities that use the fair-value method of either recognition or disclosure under FAS 123 to apply a modified version of the prospective application. Under modified prospective application, compensation cost is recognized on or after the effective date for all unvested awards, based on their grant-date fair value as calculated under FAS 123 for either recognition or pro forma disclosure purposes.

In addition, the accounting for certain grants of equity awards to individuals who are retirement-eligible on the date of grant has been clarified. FAS 123R states that an employee' s share-based award becomes vested at the date that the employee' s right to receive or retain equity shares is no longer contingent on the satisfaction of a market, performance or service condition. Accordingly, awards granted to retirement-eligible employees are not contingent on satisfying a service condition and therefore are recognized at fair value on the date of the grant. Additionally, the period over which cost is recognized for awards granted to those who become retirement-eligible before the vesting date, will be from the grant date to the retirement-eligible date rather than to the vesting date. This guidance is to be applied prospectively to new or modified awards granted upon adoption of FAS 123R.

The Company adopted FAS 123R effective January 1, 2006 using modified prospective application. The adoption of FAS 123R did not have a significant effect on the Company' s results of operations, financial condition or liquidity. See note 10 of the financial statements for further discussion on the quarter and year-to-date impact of adoption of this standard.

Staff Accounting Bulletin No. 107 - Share-Based Payment

In March 2005, the staff of the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 107 (SAB 107) as an interpretation by the SEC staff of the interaction between FAS 123R and certain SEC rules and regulations regarding the valuation of share-based payment arrangements. SAB 107 requires that all disclosure requirements for annual reporting be provided for interim periods during the first year of adoption, beginning in the period of adoption. Accordingly, in note 10 of the financial statements, the Company has included, on a year-to-date basis, the annual disclosure requirements of FAS 123R.

Accounting Changes and Error Corrections

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, *Accounting Changes and Error Corrections* (FAS 154), which replaced APB Opinion No. 20, *Accounting Changes,* and FASB Statement of Financial Accounting Standards No. 3, *Reporting Changes in Interim Financial Statements.* FAS 154 changed the requirements for the accounting for and reporting of a change in accounting principle. It requires retrospective application to prior period financial statements of voluntary changes in accounting principle and changes required by new accounting standards when the standard does not include specific transition provisions, unless it is impracticable to do so. FAS 154 was effective for accounting changes and corrections of errors in fiscal years beginning after December 15, 2005. Early adoption was permitted for accounting changes and corrections of errors made in fiscal years beginning after June 1, 2005. It did not change the transition provisions of any existing accounting pronouncements, including those that were in a transition phase as of December 15, 2005. The adoption of FAS 154 had no impact on the Company' s results of operations, financial condition or liquidity.

The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments

In November 2005, the FASB issued FASB Staff Position (FSP) FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments.* The FSP addresses the determination as to when an investment is considered impaired, whether that impairment is other-than-temporary, and the measurement of an impairment loss. It requires the establishment of a new cost basis subsequent to the recognition of an other-than-temporary impairment and certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The FSP is effective for reporting periods beginning after December 15, 2005. The Company had previously implemented these requirements. Therefore, the adoption of the FSP had no impact on the Company' s results of operations, financial condition or liquidity.

Accounting Standards Not Yet Adopted

Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts

In September 2005, the Accounting Standards Executive Committee (AcSEC) issued Statement of Position 05-1, *Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts* (SOP 05-1). SOP 05-1 provides guidance on accounting by insurance enterprises for deferred acquisition costs on internal replacements of insurance and investment contracts other than those specifically described in FAS 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments*. SOP 05-1 defines an internal replacement as a modification in product benefits, features, rights, or coverages that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract.

SOP 05-1 is effective for internal replacements occurring in fiscal years beginning after December 15, 2006, with earlier adoption encouraged. The Company does not expect the impact of adopting SOP 05-1 to have a significant effect on its results of operations, financial condition or liquidity.

Accounting for Uncertainty in Income Taxes

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company' s financial statements and prescribes the recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Under FIN 48, evaluation of a tax position is a two-step process. The first step is to determine whether it is more-likely-than-not that a tax position will be sustained upon examination, including the resolution of any related appeals or litigation based on the technical merits of the position. The second step is to measure a tax position that meets the more-likely-than-not threshold to determine the amount of benefit to be recognized in the financial statements. A tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement.

Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent period in which the threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not criteria should be de-recognized in the first subsequent financial reporting period in which the threshold is no longer met.

FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company does not expect the impact of adopting FIN 48 to have a significant effect on results of operations, financial condition or liquidity.

Accounting Policies

Reinsurance to Close

Under the accounting conventions used by Lloyd' s members, each underwriting account is normally kept open for three years and the underwriting results determined at the end of the third year when the account is closed, normally by reinsurance into the following year of account. When a year of account is closed, a reinsurance contract (the "reinsurance to close" or RITC) is entered into with a subsequent year of account in consideration for which all subsequent underwriting transactions resulting from the closing year and all previous years reinsured therein are brought forward to (accepted by) the subsequent year of account. The RITC, which is calculated by the underwriter and approved by the managing agent, comprises an estimate of all net outstanding liabilities of the closing year and all previous years.

The amount of the assets received in an RITC is equal to the accepted claims including incurred but not reported (IBNR) claims and is undiscounted for the time value of money. Accordingly, there is no gain or loss at the time the assets and liabilities are acquired and recognized by the subsequent year of account. In addition, there is no impact on reported premiums and losses as a result of an RITC transaction.

Treasury Stock

Treasury stock represents the cost of common stock repurchased by the Company, which stock represents authorized and unissued shares of the Company under the Minnesota Business Corporation Act.

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2. DISCONTINUED OPERATIONS

In March 2005, the Company and Nuveen Investments jointly announced that the Company would implement a program to divest its 78% equity interest in Nuveen Investments. In the second quarter of 2005, the Company began implementing that program, which was completed through a series of transactions in the second and third quarters of 2005, resulting in net pretax cash proceeds of $2.40 billion.

The following transactions occurred in the second quarter of 2005, resulting in net pretax cash proceeds in the quarter of approximately $1.87 billion:

- The Company sold 39.9 million shares of Nuveen Investments through a public secondary offering;
- Nuveen Investments repurchased approximately 6.1 million shares of its common stock from the Company; and
- The Company entered into forward sales agreements with respect to 11.9 million shares of Nuveen Investments' common stock.

In conjunction with the first two of these transactions, the Company recorded a pretax gain on disposal of $212 million ($138 million after-tax) in the second quarter of 2005. Additionally, the Company recorded a net operating loss from discontinued operations of $665 million in the first six months of 2005, primarily consisting of a $710 million tax expense due to the difference between the tax basis and the GAAP carrying value of the Company' s investment in Nuveen Investments, partially offset by the Company' s share of Nuveen Investments' net income for the six months ended June 30, 2005.

Upon closing of the sale of the 39.9 million shares in the secondary offering and the repurchase of the 6.1 million shares by Nuveen Investments in the second quarter of 2005, the Company' s ownership interest in Nuveen Investments declined from approximately 78% to

31%; accordingly, the Company' s remaining investment in Nuveen Investments at June 30, 2005 was accounted for using the equity method of accounting. The divestiture of Nuveen Investments was completed prior to the end of 2005; accordingly, no balances related to Nuveen Investments are included in the Company' s consolidated balance sheet at December 31, 2005.

For the six months ended June 30, 2005, the Company has separately disclosed the operating, investing and financing cash flows attributable to its discontinued operations (Nuveen Investments), which previously were reported as components of cash flows from continuing operations.

3. SEGMENT INFORMATION

The Company is organized into three reportable business segments: Commercial, Specialty and Personal. These segments reflect the manner by which the Company manages its property and casualty insurance products and insurance-related services and represent an aggregation of these products and services based on type of customer, how the business is marketed, and the manner in which the business is underwritten.

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

(at and for the three months ended June 30, in millions)	Commercial	Specialty	Personal	Total Reportable Segments
2006 Revenues				
Premiums	**$ 2,098**	**$ 1,456**	**$ 1,627**	**$ 5,181**
Net investment income	**510**	**227**	**137**	**874**
Fee income	**142**	**11**	**–**	**153**
Other revenues	**7**	**8**	**22**	**37**
Total operating revenues (1)	**$ 2,757**	**$ 1,702**	**$ 1,786**	**$ 6,245**
Operating income (1)	**$ 517**	**$ 287**	**$ 203**	**$ 1,007**
Assets	**$ 73,446**	**$ 26,553**	**$ 13,101**	**$ 113,100**
2005 Revenues				
Premiums	$ 2,164	$ 1,449	$ 1,496	$ 5,109
Net investment income	498	173	116	787
Fee income	156	9	–	165
Other revenues	13	8	23	44
Total operating revenues (1)	$ 2,831	$ 1,639	$ 1,635	$ 6,105
Operating income (1)	$ 530	$ 221	$ 266	$ 1,017
Assets	$ 74,961	$ 23,070	$ 11,348	$ 109,379

(at and for the six months ended June 30, in millions)	Commercial	Specialty	Personal	Total Reportable Segments
2006 Revenues				
Premiums	**$ 4,128**	**$ 2,857**	**$ 3,187**	**$ 10,172**
Net investment income	**1,027**	**449**	**271**	**1,747**
Fee income	**281**	**22**	**–**	**303**
Other revenues	**13**	**14**	**46**	**73**
Total operating revenues (1)	**$ 5,449**	**$ 3,342**	**$ 3,504**	**$ 12,295**
Operating income (1)	**$ 1,052**	**$ 544**	**$ 443**	**$ 2,039**
Assets	**$ 73,446**	**$ 26,553**	**$ 13,101**	**$ 113,100**

2005 Revenues				
Premiums	$ 4,368	$ 2,905	$ 2,955	$ 10,228
Net investment income	978	343	225	1,546
Fee income	319	17	–	336
Other revenues	28	20	47	95
Total operating revenues (1)	$ 5,693	$ 3,285	$ 3,227	$ 12,205
Operating income (1)	$ 978	$ 394	$ 551	$ 1,923
Assets	$ 74,961	$ 23,070	$ 11,348	$ 109,379

(1) Operating revenues exclude net realized investment gains (losses) and revenues from discontinued operations. Operating income equals net income excluding the after-tax impact of net realized investment gains (losses) and the after-tax impact of discontinued operations.

Business Segment Reconciliations

(in millions)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Revenue reconciliation				
Earned premiums:				
Commercial:				
Commercial multi-peril	**$ 756**	$ 690	**$ 1,491**	$ 1,360
Workers' compensation	**410**	411	**798**	830
Commercial automobile	**412**	437	**801**	874
Property	**352**	358	**688**	730
General liability	**154**	253	**334**	540
Other	**14**	15	**16**	34
Total Commercial	**2,098**	2,164	**4,128**	4,368
Specialty:				
General liability	**538**	503	**1,067**	948
Fidelity and surety	**277**	248	**537**	556
Workers' compensation	**110**	116	**230**	236
Commercial automobile	**92**	107	**183**	226
Property	**137**	123	**266**	217
Commercial multi-peril	**7**	56	**17**	121
International	**295**	296	**557**	601
Total Specialty	**1,456**	1,449	**2,857**	2,905
Personal:				
Automobile	**910**	851	**1,782**	1,691
Homeowners and other	**717**	645	**1,405**	1,264
Total Personal	**1,627**	1,496	**3,187**	2,955
Total earned premiums	**5,181**	5,109	**10,172**	10,228

Net investment income	**874**	787	**1,747**	1,546
Fee income	**153**	165	**303**	336
Other revenues	**37**	44	**73**	95
Total operating revenues for reportable segments	**6,245**	6,105	**12,295**	12,205
Interest Expense and Other	**–**	(13)	**6**	(8)
Net realized investment gains (losses)	**10**	(55)	**4**	(55)
Total consolidated revenues	**$ 6,255**	$ 6,037	**$ 12,305**	$ 12,142
Income reconciliation, net of tax				
Total operating income for reportable segments	**$ 1,007**	$ 1,017	**$ 2,039**	$ 1,923
Interest Expense and Other	**(48)**	(51)	**(69)**	(98)
Total operating income from continuing operations	**959**	966	**$ 1,970**	$ 1,825
Net realized investment gains (losses)	**11**	(35)	**6**	(17)
Total income from continuing operations	**970**	931	**1,976**	1,808
Discontinued operations	**–**	138	**–**	(527)
Total consolidated net income	**$ 970**	$ 1,069	**$ 1,976**	$ 1,281

(at June 30, in millions)	2006	2005
Asset reconciliation		
Total assets for reportable segments	**$113,100**	$109,379
Net assets of discontinued operations	**–**	784
Other assets (1)	**786**	1,641
Total consolidated assets	**$113,886**	$111,804

(1) The primary components of other assets in 2006 were prepaid pension costs and deferred taxes and in 2005 were invested assets.

4. 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, 2006, in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	**$ 7,900**	**$ 30**	**$ 268**	**$ 7,662**
U.S. Treasury securities and obligations of U.S. Government and government agencies and authorities	**2,991**	**4**	**65**	**2,930**
Obligations of states, municipalities and political subdivisions	**33,989**	**269**	**510**	**33,748**
Debt securities issued by foreign governments	**1,645**	**5**	**20**	**1,630**
All other corporate bonds	**14,486**	**103**	**478**	**14,111**
Redeemable preferred stock	**80**	**14**	**1**	**93**
Total	**$ 61,091**	**$ 425**	**$ 1,342**	**$ 60,174**

(at December 31, 2005, in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value

Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	$ 7,997	$ 66	$ 121	$ 7,942
U.S. Treasury securities and obligations of U.S. Government and government agencies and authorities	3,458	18	35	3,441
Obligations of states, municipalities and political subdivisions	31,372	587	137	31,822
Debt securities issued by foreign governments	1,583	11	6	1,588
All other corporate bonds	14,098	201	230	14,069
Redeemable preferred stock	108	14	1	121
Total	$ 58,616	$ 897	$ 530	$ 58,983

Equity Securities

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

(at June 30, 2006, in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Common stock	**$ 137**	**$ 23**	**$ 2**	**$ 158**
Non-redeemable preferred stock	**373**	**12**	**6**	**379**
Total	**$ 510**	**$ 35**	**$ 8**	**$ 537**

(at December 31, 2005, in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Common stock	$ 136	$ 24	$ 3	$ 157
Non-redeemable preferred stock	402	24	4	422
Total	$ 538	$ 48	$ 7	$ 579

Real Estate

The Company' s real estate investments include warehouses, office buildings, land and other commercial real estate assets that are directly owned. The Company negotiates commercial leases with individual tenants through unrelated, licensed real estate brokers. Negotiated terms and conditions include, among others, rental rates, length of lease period and improvements to the premises to be provided by the landlord.

Venture Capital

The cost and fair value of investments in venture capital, which are reported as part of other investments in the Company' s consolidated balance sheet, were as follows:

(at June 30, 2006, in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Venture capital	**$ 404**	**$ 98**	**$ 3**	**$ 499**

(at December 31, 2005, in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Venture capital	$ 406	$ 91	$ 2	$ 495

Variable Interest Entities (VIEs)

The Company has significant interests in the following VIEs which are not consolidated because the Company is not considered to be the primary beneficiary:

- The Company has a significant variable interest in one real estate entity. This investment has total assets of approximately $160 million and $143 million as of June 30, 2006 and December 31, 2005, respectively. The carrying value of the Company' s share of this investment was approximately $32 million at June 30, 2006 and $31 million at December 31, 2005, which also represented its maximum exposure to loss. The purpose of the Company' s involvement in this entity is to generate investment returns.

- The Company has a significant variable interest in Camperdown UK Limited, which The St. Paul Companies, Inc. (SPC) sold in December 2003. The Company' s variable interest resulted from an agreement to indemnify the purchaser in the event a specified reserve deficiency develops, a reserve-related foreign exchange impact occurs, or a foreign tax adjustment is imposed on a pre-sale reporting period. The maximum amount of this indemnification obligation is $182 million. The fair value of this obligation as of June 30, 2006 and December 31, 2005 was $68 million and $66 million, respectively. See "Guarantees" section of note 9.

The Company has other significant interests in variable interest entities that are not material.

The following securities are not consolidated:

- Mandatorily redeemable preferred securities of trusts holding solely the subordinated debentures of the Company−These securities were issued by five separate trusts that were established for the sole purpose of issuing the securities to investors, and are fully guaranteed by the Company. The debt that the Company issued to these trusts is included in the "Debt" section of liabilities on the Company' s consolidated balance sheet. That debt had a carrying value of $1.03 billion at June 30, 2006 and December 31, 2005.

Impairments

Fixed Maturities and Equity Securities

An investment in a fixed maturity or equity security which is available for sale is impaired if its fair value falls below its book value and the decline is considered to be other-than-temporary. Factors considered in determining whether a decline is other-than-temporary include the length of time and the extent to which fair value has been below cost, the financial condition and near-term prospects of the issuer, and the Company' s ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

Additionally, for certain securitized financial assets with contractual cash flows (including asset-backed securities), FASB Emerging Issues Task Force (EITF) 99-20, *Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets,* requires the Company to periodically update its best estimate of cash flows over the life of the security. If management determines that the fair value of its securitized financial asset is less than its carrying amount and there has been a decrease in the present value of the estimated cash flows since the last revised estimate, considering both timing and amount, then an other-than-temporary impairment is recognized.

A fixed maturity security is impaired if it is probable that the Company will not be able to collect all amounts due under the security' s contractual terms. Equity securities are impaired when it becomes apparent that the Company will not recover its cost over the expected holding period. Further, for securities expected to be sold, an other-than-temporary impairment charge is recognized if the Company does not expect the fair value of a security to recover prior to the expected date of sale.

The Company' s process for reviewing invested assets for impairments during any quarter includes the following:

- identification and evaluation of investments which have possible indications of impairment;

- analysis of investments with gross unrealized investment losses that have fair values less than 80% of amortized cost during successive quarterly periods over a rolling one-year period;

- review of portfolio manager(s) recommendations for other-than-temporary impairments based on the investee' s current financial condition, liquidity, near-term recovery prospects and other factors, as well as consideration of other investments that were not recommended for other-than-temporary impairments;

- consideration of evidential matter, including an evaluation of factors or triggers that would or could cause individual investments to qualify as having other-than-temporary impairments and those that would not support other-than-temporary impairment; and

- determination of the status of each analyzed investment as other-than-temporary or not, with documentation of the rationale for the decision.

Real Estate Investments

The carrying values of real estate properties are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. The review for impairment includes an estimate of the undiscounted cash flows expected to result from the use and eventual disposition of the real estate property. An impairment loss is recognized if the expected future undiscounted cash flows are less than the carrying value of the real estate property.

Venture Capital Investments

Other investments include venture capital investments, which are generally non-publicly traded instruments in early-stage companies and, historically, having a holding period of four to seven years. These investments have primarily been made in the health care, software and computer services, and networking and information technologies infrastructures industries. The Company typically is involved with venture capital companies early in their formation, as they are developing and determining the viability of, and market demand for, their product. Generally, the Company does not expect these venture capital companies to record revenues in the early stages of their development, which can often take three to four years, and does not generally expect them to become profitable for an even longer period of time. With respect to the Company' s valuation of such non-publicly traded venture capital investments, on a quarterly basis, portfolio managers as well as an internal valuation committee review and consider a variety of factors in determining the potential for loss due to impairment. Factors considered include the following:

- the issuer' s most recent financing events;

- an analysis of whether fundamental deterioration has occurred;

- whether or not the issuer' s progress has been substantially less than expected;

- whether or not the valuations have declined significantly in the entity' s market sector;

- whether or not the internal valuation committee believes it is probable that the issuer will need financing within six months at a lower price than the Company' s carrying value; and

- whether or not the Company has the ability and intent to hold the investment for a period of time sufficient to allow for recovery, enabling it to receive value equal to or greater than the Company' s cost.

The quarterly valuation procedures described above are in addition to the portfolio managers' ongoing responsibility to frequently monitor developments affecting those invested assets, paying particular attention to events that might give rise to impairment write-downs.

Non-Publicly Traded Investments

The Company' s investment portfolio includes non-publicly traded investments, such as venture capital investments, private equity limited partnerships, joint ventures, other limited partnerships and certain fixed income securities. Certain venture capital investments that are controlled by the Company are consolidated in the Company' s financial statements. The Company uses the equity method of accounting for joint ventures, limited partnerships and certain private equity securities. Certain other private equity investments, including venture capital investments, are not subject to the provisions of Statement of Financial Accounting Standards (FAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities,* but are reported at estimated fair value in accordance with FAS 60, *Accounting and Reporting by Insurance Enterprises.* The fair value of the venture capital investments is based on an estimate determined by an internal valuation committee for securities for which there is no public market. The internal valuation committee reviews such factors as recent filings, operating results, balance sheet stability, growth, and other business and market sector fundamental statistics in estimating fair values of specific investments. Other non-publicly traded securities are valued based on factors such as management judgment, recent financial information and other market data. An impairment loss is recognized if, based on the specific facts and circumstances, it is probable that the Company will not be able to recover all of the cost of an individual holding.

Unrealized Investment Losses

The following tables summarize, for all investments in an unrealized loss position at June 30, 2006 and December 31, 2005, the aggregate fair value and gross unrealized losses by length of time those investments have been continuously in an unrealized loss position.

	Less than 12 months		12 months or longer		Total	
(at June 30, 2006, in millions)	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
Fixed maturities						
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	**$ 4,544**	**$ 153**	**$ 2,024**	**$ 115**	**$ 6,568**	**$ 268**
U.S. Treasury securities and obligations of U.S. Government and government agencies and authorities	**2,250**	**39**	**529**	**26**	**2,779**	**65**
Obligations of states, municipalities and political subdivisions	**19,712**	**419**	**2,514**	**91**	**22,226**	**510**
Debt securities issued by foreign governments	**1,398**	**18**	**153**	**2**	**1,551**	**20**
All other corporate bonds	**7,500**	**249**	**4,195**	**229**	**11,695**	**478**
Redeemable preferred stock	**17**	**1**	**2**	**–**	**19**	**1**
Total fixed maturities	**35,421**	**879**	**9,417**	**463**	**44,838**	**1,342**
Equity securities						
Common stock	**8**	**–**	**11**	**2**	**19**	**2**
Nonredeemable preferred stock	**55**	**2**	**40**	**4**	**95**	**6**
Total equity securities	**63**	**2**	**51**	**6**	**114**	**8**
Venture capital	**20**	**3**	**–**	**–**	**20**	**3**
Total	**$ 35,504**	**$ 884**	**$ 9,468**	**$ 469**	**$ 44,972**	**$ 1,353**

	Less than 12 months		12 months or longer		Total	
(at December 31, 2005, in millions)	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
Fixed maturities						
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	$ 4,046	$ 62	$ 1,673	$ 59	$ 5,719	$ 121

U.S. Treasury securities and obligations of U.S. Government and government agencies and authorities	2,395	18	576	17	2,971	35
Obligations of states, municipalities and political subdivisions	9,524	86	2,331	51	11,855	137
Debt securities issued by foreign governments	547	4	196	2	743	6
All other corporate bonds	4,971	105	3,652	125	8,623	230
Redeemable preferred stock	5	–	10	1	15	1
Total fixed maturities	21,488	275	8,438	255	29,926	530
Equity securities						
Common stock	10	1	14	2	24	3
Nonredeemable preferred stock	37	1	30	3	67	4
Total equity securities	47	2	44	5	91	7
Venture capital	18	1	4	1	22	2
Total	$ 21,553	$ 278	$ 8,486	$ 261	$ 30,039	$ 539

Impairment charges included in net realized investment gains were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Fixed maturities	**$ –**	$ 2	**$ –**	$ 5
Equity securities	**–**	–	**1**	–
Venture capital	**3**	40	**8**	46
Real estate and other	**–**	–	**4**	–
Total	**$ 3**	$ 42	**$ 13**	$ 51

5. INTANGIBLE ASSETS AND GOODWILL

Intangible Assets

The following presents a summary of the Company' s intangible assets by major asset class as of June 30, 2006 and December 31, 2005:

(At June 30, 2006, in millions)	Gross Carrying Amount	Accumulated Amortization	Net
Intangibles subject to amortization			
Customer-related	**$ 1,036**	**$ 472**	**$ 564**
Marketing-related	**20**	**20**	**–**
Fair value adjustment on claims and claim adjustment expense reserves and reinsurance recoverables (1)	**191**	**(64)**	**255**
Total intangible assets subject to amortization	**1,247**	**428**	**819**
Intangible assets not subject to amortization			
Contract-based	**20**	**–**	**20**
Total intangible assets not subject to amortization	**20**	**–**	**20**
Total intangible assets	**$ 1,267**	**$ 428**	**$ 839**

(At December 31 2005, in millions)	Gross Carrying Amount	Accumulated Amortization	Net
Intangibles subject to amortization			
Customer-related	$ 1,036	$ 403	$ 633
Marketing-related	20	17	3
Fair value adjustment on claims and claim adjustment expense reserves and reinsurance recoverables (1)	191	(70)	261
Total intangible assets subject to amortization	1,247	350	897
Intangible assets not subject to amortization			
Contract-based	20	–	20
Total intangible assets not subject to amortization	20	–	20
Total intangible assets	$ 1,267	$ 350	$ 917

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2006	2005	2006	2005
Customer-related	**$ 33**	$ 37	**$ 69**	$ 77
Marketing-related	**–**	2	**3**	5
Fair value adjustment on claims and claim adjustment expense reserves and reinsurance recoverables	**3**	(4)	**6**	(11)
Total	**$ 36**	$ 35	**$ 78**	$ 71

Intangible asset amortization expense is estimated to be $75 million for the remainder of 2006, $146 million in 2007, $126 million in 2008, $100 million in 2009 and $86 million in 2010.

Goodwill

The following table presents the carrying amount of the Company' s goodwill by segment at June 30, 2006 and December 31, 2005:

(in millions)	June 30, 2006	December 31, 2005
Commercial	**$ 1,862**	$ 1,862
Specialty	**858**	860
Personal	**613**	613
Other	**108**	107
Total	**$ 3,441**	$ 3,442

6. 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)	2006	2005	2006	2005

Net income	**$ 970**	$ 1,069	**$ 1,976**	$ 1,281
Change in net unrealized gain (loss) on investment securities	**(416)**	684	**(804)**	94
Other changes	**35**	(18)	**47**	(22)
Total changes in equity from nonowner sources	**$ 589**	$ 1,735	**$ 1,219**	$ 1,353

7. EARNINGS PER SHARE

Basic earnings per share was computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share reflected the effect of potentially dilutive securities.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions, except per share amounts)	**2006**	**2005**	**2006**	**2005**
Basic				
Income from continuing operations, as reported	**$ 970**	$ 931	**$ 1,976**	$ 1,808
Preferred stock dividends, net of taxes	**(1)**	(2)	**(2)**	(3)
Income from continuing operations available to common shareholders - basic	**$ 969**	$ 929	**$ 1,974**	$ 1,805
Diluted				
Income from continuing operations available to common shareholders	**$ 969**	$ 929	**$ 1,974**	$ 1,805
Effect of dilutive securities:				
Convertible preferred stock	**1**	2	**2**	3
Zero coupon convertible notes	**1**	1	**2**	2
Convertible junior subordinated notes	**7**	7	**13**	13
Equity unit stock purchase contracts (1)	**–**	3	**–**	7
Income from continuing operations available to common shareholders - diluted	**$ 978**	$ 942	**$ 1,991**	$ 1,830
Common shares				
Basic				
Weighed average shares outstanding	**691.8**	669.5	**692.0**	668.8
Diluted				
Weighted average shares outstanding	**691.8**	669.5	**692.0**	668.8
Weighted average effects of dilutive securities:				
Stock options and other incentive plans	**6.0**	2.2	**6.0**	2.2
Convertible preferred stock	**3.5**	4.3	**3.5**	4.4
Zero coupon convertible notes	**2.4**	2.4	**2.4**	2.4
Convertible junior subordinated notes	**16.7**	16.7	**16.7**	16.7
Equity unit stock purchase contracts (1)	**–**	15.2	**–**	15.2
Total	**720.4**	710.3	**720.6**	709.7

Income from Continuing Operations per Common Share				
Basic	**$ 1.40**	$ 1.39	**$ 2.85**	$ 2.70
Diluted	**$ 1.36**	$ 1.33	**$ 2.76**	$ 2.58

(1) Settled in August 2005.

8. PENSION PLANS, RETIREMENT BENEFITS AND SAVINGS PLANS

The following tables summarize the components of net pension and postretirement benefit expense for the Company' s plans recognized in continuing operations in the consolidated statement of income.

(for the three months ended June 30, in millions)	Qualified Domestic Plan 2006	Qualified Domestic Plan 2005	Non-qualified and Foreign Plans 2006	Non-qualified and Foreign Plans 2005	Total 2006	Total 2005
Service cost	**$ 15**	$ 15	**$ 1**	$ –	**$ 16**	$ 15
Interest on benefit obligation	**24**	23	**3**	3	**27**	26
Expected return on plan assets	**(35)**	(33)	**(2)**	(2)	**(37)**	(35)
Amortization of unrecognized:						
Prior service cost	**(1)**	(1)	–	–	**(1)**	(1)
Net actuarial loss	**2**	–	–	–	**2**	–
Total	**$ 5**	$ 4	**$ 2**	$ 1	**$ 7**	$ 5

(for the six months ended June 30, in millions)	Qualified Domestic Plan 2006	Qualified Domestic Plan 2005	Non-qualified and Foreign Plans 2006	Non-qualified and Foreign Plans 2005	Total 2006	Total 2005
Service cost	**$ 31**	$ 30	**$ 1**	$ 1	**$ 32**	$ 31
Interest on benefit obligation	**49**	47	**5**	5	**54**	52
Expected return on plan assets	**(71)**	(67)	**(3)**	(3)	**(74)**	(70)
Amortization of unrecognized:						
Prior service cost	**(3)**	(3)	–	–	**(3)**	(3)
Net actuarial loss	**4**	–	**1**	–	**5**	–
Total	**$ 10**	$ 7	**$ 4**	$ 3	**$ 14**	$ 10

	Postretirement Benefit Plans			
	Three Months Ended June 30,		Six Months Ended June 30	
(in millions)	2006	2005	2006	2005
Service cost	**$ –**	$ 1	**$ 1**	$ 2
Interest on benefit obligation	**4**	5	**8**	9
Expected return on plan assets	–	(1)	–	(1)
Amortization of unrecognized:				
Prior service cost	–	–	–	–
Net actuarial loss	–	–	–	–
Total	**$ 4**	$ 5	**$ 9**	$ 10

9. 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 the Company' s property is 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, hazardous waste and other toxic substances 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.

Travelers Property Casualty Corp. (TPC) is involved in three significant proceedings (including a bankruptcy proceeding) relating to ACandS, Inc. (ACandS), formerly a national distributor and installer of products containing asbestos. The proceedings involve disputes as to whether and to what extent any of ACandS' potential liabilities for current or future bodily injury asbestos claims are covered by insurance policies issued by TPC. The status of the various proceedings is described below.

ACandS filed for bankruptcy in September 2002 (*In re: ACandS, Inc.,* pending in the U.S. Bankruptcy Court for the District of Delaware). In its proposed plan of reorganization, ACandS sought to establish a trust to pay asbestos bodily injury claims against it and sought to assign to the trust its rights under the insurance policies issued by TPC. The proposed plan and disclosure statement filed by ACandS claimed that ACandS had settled the vast majority of asbestos-related bodily injury claims currently pending against it for approximately $2.80 billion. ACandS asserts that, based on a prior agreement between TPC and ACandS and ACandS' interpretation of the July 31, 2003 arbitration panel ruling described below, TPC is liable for 45% of the $2.80 billion. On January 26, 2004, the bankruptcy court issued a decision rejecting confirmation of ACandS' proposed plan of reorganization. The bankruptcy court found, consistent with TPC' s objections to ACandS' proposed plan, that the proposed plan was not fundamentally fair, was not proposed in good faith and did not comply with Section 524(g) of the Bankruptcy Code. ACandS has filed a notice of appeal of the bankruptcy court' s decision and has filed objections to the bankruptcy court' s findings of fact and conclusions of law in the United States District Court. TPC has moved to dismiss the appeal and objections and has also filed an opposition to ACandS' objections.

An arbitration was commenced in January 2001 to determine whether and to what extent ACandS' financial obligations for bodily injury asbestos claims are subject to insurance policy aggregate limits. On July 31, 2003, the arbitration panel ruled in favor of TPC that asbestos bodily injury claims against ACandS are subject to the aggregate limits of the policies issued to ACandS, which have been exhausted. In October 2003, ACandS commenced a lawsuit seeking to vacate the arbitration award as beyond the panel' s scope of authority (*ACandS, Inc. v. Travelers Casualty and Surety Co.,* U.S.D.Ct. E.D. Pa.). On September 16, 2004, the district court entered an order denying ACandS' motion to vacate the arbitration award. On January 19, 2006, the United States Court of Appeals for the Third Circuit reversed the district court' s decision and declared the arbitration award void on procedural grounds. On May 22, 2006, the United States Supreme Court denied TPC' s petition for a writ of certiorari seeking review of the Third Circuit' s decision. As a result, the matter has been remanded to district court and TPC has asked the district court to remand the arbitration to the panel that initially ruled in favor of TPC for further proceedings consistent with the Third Circuit' s decision. ACandS has opposed that request.

In the other proceeding, a related case pending before the same court and commenced in September 2000 (*ACandS v. Travelers Casualty and Surety Co.*, U.S.D.Ct., E.D. Pa.), ACandS sought a declaration of the extent to which the asbestos bodily injury claims against ACandS are subject to occurrence limits under insurance policies issued by TPC. TPC filed a motion to dismiss this action based upon the July 31, 2003 arbitration decision described above. The district court found the dispute was moot as a result of the arbitration panel' s decision and dismissed the case. As a result of the January 19, 2006 ruling by the Third Circuit and the Supreme Court' s denial of certiorari, described in the paragraph above, this case has been reinstated.

The Company continues to believe it has meritorious positions in these ACandS-related proceedings and intends to litigate vigorously.

In October 2001 and April 2002, two purported class action suits (*Wise v. Travelers* and *Meninger v. Travelers*) were filed against TPC and other insurers (not including SPC) in state court in West Virginia. These cases were subsequently consolidated into a single proceeding in the Circuit Court of Kanawha County, West Virginia. Plaintiffs allege that the insurer defendants engaged in unfair trade practices 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. Lawsuits similar to *Wise* were filed in Massachusetts and Hawaii (these suits are collectively referred to as the "Statutory and Hawaii Actions"). Also, in November 2001, plaintiffs in consolidated asbestos actions pending before a mass tort panel of judges in West Virginia state court moved to amend their complaint to name TPC as a defendant, alleging that TPC and other insurers breached alleged duties to certain users of asbestos products. In March 2002, the court granted

the motion to amend. Plaintiffs seek damages, including punitive damages. Lawsuits seeking similar relief and raising allegations similar to those presented in the West Virginia amended complaint are also pending in Texas state court against TPC and SPC, and in Louisiana state court against TPC (the claims asserted in these suits, together with the West Virginia suit, are collectively referred to as the "Common Law Claims"). Lawsuits seeking similar relief in Ohio have been dismissed.

All of the actions against TPC described in the preceding paragraph, other than the Hawaii Actions, had been subject to a temporary restraining order entered by the federal bankruptcy court in New York that had previously presided over and approved the reorganization in bankruptcy of TPC' s former policyholder Johns-Manville Corporation and affiliated entities. In August 2002, the bankruptcy court held a hearing on TPC' s motion for a preliminary injunction prohibiting further prosecution of the lawsuits pursuant to the reorganization plan and related orders. At the conclusion of this hearing, the court ordered the parties to mediation, appointed a mediator and continued the temporary restraining order. During 2003, the same bankruptcy court extended the existing injunction to apply to an additional set of cases filed in various state courts in Texas and Ohio as well as to the attorneys who are prosecuting these cases. The order also enjoined these attorneys and their respective law firms from commencing any further lawsuits against TPC based upon these allegations without the prior approval of the court. Notwithstanding the injunction, additional Common Law Claims were filed and served on TPC.

On November 19, 2003, the parties advised the bankruptcy court that a settlement of the Statutory and Hawaii Actions had been reached. This settlement includes a lump-sum payment of up to $412 million by TPC, subject to a number of significant contingencies. After continued meetings with the mediator, the parties advised the bankruptcy court on May 25, 2004 that a settlement resolving substantially all pending and similar future Common Law Claims against TPC had also been reached. This settlement requires a payment of up to $90 million by TPC, subject to a number of significant contingencies. Each of these settlements is contingent upon, among other things, an 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 in connection with the original Johns-Manville bankruptcy proceedings.

On August 17, 2004, the bankruptcy court entered an order approving the settlements and clarifying its prior orders that all of the pending Statutory and Hawaii Actions and substantially all Common Law Claims pending against TPC are barred. The order also applies to similar direct action claims that may be filed in the future.

Four appeals were taken from the August 17, 2004 ruling. On March 29, 2006, the U.S. District Court for the Southern District of New York substantially affirmed the bankruptcy court' s orders while vacating that portion of the bankruptcy court' s orders that required all future direct actions against TPC to first be approved by the bankruptcy court before proceeding in state or federal court. Judgment was entered on March 31, 2006.

Appeals from the March 29, 2006 ruling have been filed with the U.S. Court of Appeals for the Second Circuit. Those appeals remain pending and it is not possible to predict how the appellate court will rule on the pending appeals. The Company has no obligation to pay any of the settlement amounts unless and until the orders and relief become final and are not subject to any further appellate review.

SPC, which is not covered by the bankruptcy court rulings or the settlements described above, has numerous defenses in all of the direct action cases asserting Common Law Claims that are pending against it. SPC' s defenses include the fact that these novel theories have no basis in law; that they are directly at odds with the well-established law pertaining to the insured/insurer relationship; that there is no generalized duty to warn as alleged by the plaintiffs; and that the applicable statute of limitations as to many of these claims has long since expired. Many of these defenses have been raised in initial motions to dismiss filed by SPC and other insurers. There have been favorable rulings during 2003 and 2004 in Texas and during 2004 and 2005 in Ohio on some of these motions filed by SPC and other insurers that dealt with statute of limitations and the validity of the alleged causes of actions. On May 26, 2005, the Court of Appeals of Ohio, Eighth District, affirmed the earliest of these favorable rulings. In Texas, only one court, in June of 2005, has denied the insurers' initial challenges to the pleadings. That ruling was contrary to the rulings by other courts in similar cases, and SPC and the other insurer defendants have filed a mandamus petition with the Texas Court of Appeals.

The Company is defending its asbestos- and environmental-related litigation vigorously and believes that it has meritorious defenses; however, the outcome of these disputes is uncertain. In this regard, the Company employs dedicated specialists and aggressive resolution strategies to manage asbestos and environmental loss exposure, including settling litigation under appropriate circumstances. For a discussion of other information regarding the Company' s asbestos and environmental exposure, see "Item 2 − Management' s Discussion and Analysis of Financial Condition and Results of Operations − Asbestos Claims and Litigation", "− Environmental Claims and Litigation" and "− Uncertainty Regarding Adequacy of Asbestos and Environmental Reserves."

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 and financial condition in future periods.

Shareholder Litigation and Related Proceedings

Three actions against the Company and certain of its current and former officers and directors are pending in the United States District Court for the District of Minnesota. Two of these actions, which were originally captioned *Kahn v. The St. Paul Travelers Companies, Inc., et al.* (Nov. 2, 2004) and *Michael A. Bernstein Profit Sharing Plan v. The St. Paul Travelers Companies, Inc., et al.* (Nov. 10, 2004), are putative class actions brought by certain shareholders of the Company against the Company and certain of its current and former officers and directors. These actions have been consolidated as *In re St. Paul Travelers Securities Litigation II*, and a lead plaintiff and lead counsel have been appointed. On July 11, 2005, the lead plaintiff filed an amended consolidated complaint. The amended consolidated complaint alleges violations of federal securities laws in connection with the Company' s alleged failure to make disclosure relating to the practice of paying brokers commissions on a contingent basis, the Company' s alleged involvement in a conspiracy to rig bids and the Company' s allegedly improper use of finite reinsurance products. On September 26, 2005, the Company and the other defendants in *In re St. Paul Travelers Securities Litigation II* moved to dismiss the amended consolidated complaint for failure to state a claim. Oral argument on the Company' s motion to dismiss was presented on June 15, 2006. In the third of these actions, an alleged beneficiary of the Company' s 401(k) savings plan commenced a putative class action against the Company and certain of its current and former officers and directors captioned *Spiziri v. The St. Paul Travelers Companies, Inc., et al.* (Dec. 28, 2004). The complaint alleges violations of the Employee Retirement Income Security Act based on the theory that defendants were allegedly aware of issues concerning the value of SPC' s loss reserves yet failed to protect plan participants from continued investment in Company stock. On June 1, 2005, the Company and the other defendants in *Spiziri* moved to dismiss the complaint. On January 4, 2006, the parties in *Spiziri* entered into a stipulation of settlement. The settlement remains subject to court approval.

In addition, two derivative actions have been brought in the United States District Court for the District of Minnesota against all of the Company' s current directors and certain of the Company' s former Directors, naming the Company as a nominal defendant: *Rowe v. Fishman, et al.* (Oct. 22, 2004) and *Clark v. Fishman, et al.* (Nov. 18, 2004). The derivative actions have been consolidated for pretrial proceedings as *Rowe, et al. v. Fishman, et al*. and a consolidated derivative complaint has been filed. The consolidated derivative complaint asserts state law claims, including breach of fiduciary duty, based on allegations similar to those alleged in *In re St. Paul Travelers Securities Litigation II* and *Spiziri* described above. On March 23, 2006, the Court dismissed the complaint without prejudice and, on March 30, 2006, entered judgment in favor of the Company and the other defendants. On June 5, 2006, plaintiffs in *Rowe* moved to alter or amend the judgment for leave to file an amended complaint. The Company and the other defendants have opposed that motion.

The Company believes that the pending lawsuits have no merit and intends to defend vigorously; however, the Company is not able to provide any assurance that the financial impact of one or more of these proceedings will not be material to the Company' s results of operations in a future period. The Company is obligated to indemnify its officers and directors to the extent provided under Minnesota law. As part of that obligation, the Company will advance officers and directors attorneys' fees and other expenses they incur in defending these lawsuits.

Other Proceedings

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. These proceedings may be initiated by the Company or the reinsurers and may involve the terms of the reinsurance agreements, the coverage of particular claims, exclusions under the agreements, as well as counterclaims for rescission of the agreements. One of these disputes is the action described in the following paragraph.

The Company' s Gulf operation brought an action on May 22, 2003, as amended on May 12, 2004, in the Supreme Court of New York, County of New York (*Gulf Insurance Company v. Transatlantic Reinsurance Company, et al.*), against Transatlantic Reinsurance Company (Transatlantic), XL Reinsurance America, Inc. (XL), Odyssey America Reinsurance Corporation (Odyssey), Employers Reinsurance Company (Employers) and Gerling Global Reinsurance Corporation of America (Gerling), to recover amounts due under reinsurance contracts issued to Gulf and related to Gulf' s February 2003 settlement of a coverage dispute under a vehicle residual value protection insurance policy. The reinsurers have asserted counterclaims seeking rescission of the vehicle residual value reinsurance contracts issued to Gulf and unspecified damages for breach of contract. Separate actions filed by Transatlantic and Gerling have been consolidated with the original Gulf action for pre-trial purposes. On October 1, 2003, Gulf entered into a final settlement agreement with Employers, and all claims and counterclaims with respect to Employers have been dismissed.

On May 26, 2004, the Court denied Gulf' s motion to dismiss certain claims asserted by Transatlantic and a joint motion by Transatlantic, XL and Odyssey for summary judgment against Gulf. The Court has not yet set a trial date. Gulf denies the reinsurers' allegations, believes that it has a strong legal basis to collect the amounts due under the reinsurance contracts and intends to vigorously pursue the actions.

Based on the Company' s beliefs about its legal positions in its various reinsurance recovery proceedings, the Company does not expect any of these matters will have a material adverse effect on its results of operations in a future period.

As part of ongoing, industry-wide investigations, the Company and its affiliates have received subpoenas and written requests for information from government agencies and authorities. The areas of inquiry addressed to the Company include its relationship with brokers and agents, the Company' s involvement with "non-traditional insurance and reinsurance products," branding requirements for salvage automobiles and the reporting of workers' compensation premiums. The Company or its affiliates have received subpoenas or requests for information, in each case with respect to one or more of the areas described above, from: (i) State of California Office of the Attorney General; (ii) State of California Department of Insurance; (iii) Licensing and Market Conduct Compliance Division, Financial Services Commission of Ontario, Canada; (iv) State of Connecticut Insurance Department; (v) State of Connecticut Office of the Attorney General; (vi) State of Delaware Department of Insurance; (vii) State of Florida Department of Financial Services; (viii) State of Florida Office of Insurance Regulation; (ix) State of Florida Department of Legal Affairs Office of the Attorney General; (x) State of Georgia Office of the Commissioner of Insurance; (xi) State of Hawaii Office of the Attorney General; (xii) State of Illinois Office of the Attorney General; (xiii) State of Illinois Department of Financial and Professional Regulation; (xiv) State of Iowa Insurance Division; (xv) State of Maryland Office of the Attorney General; (xvi) State of Maryland Insurance Administration; (xvii) Commonwealth of Massachusetts Office of the Attorney General; (xviii) State of Minnesota Department of Commerce; (xix) State of Minnesota Office of the Attorney General; (xx) State of New Hampshire

Insurance Department; (xxi) State of New York Office of the Attorney General; (xxii) State of New York Insurance Department; (xxiii) State of North Carolina

Department of Insurance; (xxiv) State of Ohio Office of the Attorney General; (xxv) State of Ohio Department of Insurance; (xxvi) State of Oregon Department of Justice; (xxvii) Commonwealth of Pennsylvania Office of the Attorney General; (xxviii) State of Texas Office of the Attorney General; (xxvix) State of Texas Department of Insurance; (xxx) Commonwealth of Virginia Office of the Attorney General; (xxxi) State of Washington Office of the Insurance Commissioner; (xxxii) State of West Virginia Office of Attorney General; (xxxiii) the United States Attorney for the Southern District of New York; and (xxxiv) the United States Securities and Exchange Commission. The Company and its affiliates may receive additional subpoenas and requests for information with respect to the areas described above from other agencies or authorities.

The Company is cooperating with these subpoenas and requests for information. In addition, outside counsel, with the oversight of the Company' s Board of Directors, has been conducting an internal review of certain of the Company' s business practices. This review initially focused on the Company' s relationship with brokers and was commenced after the announcement of litigation brought by the New York Attorney General' s office against a major broker.

The internal review was expanded to address the various requests for information described above and to verify whether the Company' s business practices in these areas have been appropriate. The Company' s review has been extensive, involving the examination of e-mails and underwriting files, as well as interviews of current and former employees. The Company also continues to receive and respond to additional requests for information and will expand its review accordingly.

To date, the Company has found only a few instances of conduct that were inconsistent with the Company' s employee code of conduct. The Company has responded, and will continue to respond, appropriately to any such conduct.

The Company' s internal review with respect to finite reinsurance considered finite products the Company both purchased and sold. The Company has completed its review with respect to the identified finite products purchased and sold, and has concluded that no adjustment to previously issued financial statements is required.

On August 1, 2006, the Company entered into an Assurance of Discontinuance with the Office of the Attorney General of the State of New York, the Office of the Attorney General of the State of Illinois and the Office of the Attorney General of the State of Connecticut, and a Stipulation with the New York State Department of Insurance resolving issues related to their industry-wide investigations described above.

Pursuant to these agreements, copies of which are filed as exhibits to this Quarterly Report on Form 10-Q, the Company will make payments totaling $77 million, $37 million of which will be available for certain excess casualty policyholders and the remaining $40 million of which will be paid in fines or penalties. These payments have been funded by the $42 million provision for legal expenses recorded in the second quarter of 2006, along with additional amounts that had previously been recorded. In addition, the Company has agreed to implement certain business reforms. Among other things, the Company has agreed not to pay any contingent commissions to insurance brokers or agents on excess casualty business in the United States through 2008 and to discontinue paying contingent commissions to insurance brokers or agents on any lines of business if 65% of the United States market for that line does not pay such commissions or has signed a similar agreement.

Previously described industry-wide investigations, other than those resolved on August 1, 2006 as described above, are ongoing, as are the Company' s efforts to cooperate with the authorities, and the various authorities could ask that additional work be performed or reach conclusions different from the Company' s. Accordingly, it would be premature to reach any conclusions as to the likely outcome of these matters.

Six putative class action lawsuits and three individual actions 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. Plaintiffs allege 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. Five of the class actions were filed in federal district court, and the complaints are captioned: *Shell Vacations LLC v. Marsh & McLennan Companies, Inc., et al.* (N.D. Ill. Jan. 14, 2005), *Redwood Oil Company v. Marsh & McLennan Companies, Inc.*, *et al.* (N.D. Ill. Jan. 21, 2005), *Boros v. Marsh & McLennan Companies, Inc., et al.* (N.D. Cal. Feb. 4, 2005), *Mulcahy v. Arthur J. Gallagher & Co., et al.* (D.N.J. Feb. 23, 2005) and *Golden Gate Bridge, Highway, and Transportation District v. Marsh & McLennan Companies, Inc., et al.* (D.N.J. Feb. 23, 2005). The plaintiff in one of the five actions, *Shell Vacations LLC*, later voluntarily dismissed its complaint. To the extent they were not originally filed there, the federal class actions were transferred by the Judicial Panel on Multidistrict Litigation to the United States District Court for the District of New Jersey and have been consolidated with other class actions under the caption *In re Insurance Brokerage Antitrust Litigation*, a multidistrict litigation proceeding in that District. 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 includes causes of action under the Sherman Act, the Racketeer Influenced and Corrupt Organizations Act, state common law and the laws of the various states prohibiting antitrust violations. Plaintiffs seek monetary damages, including punitive damages and trebled damages, permanent injunctive relief, restitution, including disgorgement of profits, interest and costs, including attorneys' fees. On November 29, 2005, all defendants moved to dismiss the complaint for failure to state a claim.

Oral arguments on the defendants' motion to dismiss were heard on July 26, 2006. On February 13, 2006, the named plaintiffs moved to certify a nationwide class consisting of all persons who between August 26, 1994 and the date of class certification engaged the services of a broker defendant (or related entity) in connection with the procurement or renewal of insurance and who entered into or renewed a contract of insurance with one or more of the insurer defendants, including the Company. One individual action naming various brokers and insurers, including several of the Company' s affiliates, was filed in federal district court and is captioned *Delta Pride Catfish, Inc. v. Marsh USA, Inc., et al.* (D. Miss. Sept. 13, 2005). That action has also been transferred to the District of New Jersey and is being coordinated with *In re Insurance Brokerage Antitrust Litigation*. On January 17, 2006, all defendants moved to dismiss the complaint in *Delta Pride Catfish, Inc.* for failure to state a claim. Another individual action, *New Cingular Wireless Headquarters, LLC, et al*. *v. Marsh & McLennan Cos., Inc., et al.* (N.D. Ga. Apr. 4, 2006), was filed in federal court and asserts claims that are similar to those asserted in *In re Insurance Brokerage Antitrust Litigation* against various brokers and insurers, including the Company and certain of its affiliates. It has not yet been transferred to the District Court of New Jersey. One other putative class action, *Bensley Construction, Inc. v. Marsh & McLennan Companies, Inc., et al.* (Mass. Super. Ct. May 16, 2005), and one other individual action, *Office Depot, Inc. v. Marsh & McLennan Companies, Inc., et al.* (Fla. Cir. Ct. June 22, 2005), were filed in state court and assert claims that are similar to those asserted in *In re Insurance Brokerage Antitrust Litigation* against various brokers and insurers, including the Company and/or certain of its affiliates. On June 22, 2006, the plaintiffs in *Bensley Construction* voluntarily dismissed their action with prejudice. *Office Depot* was brought in Florida state court and names several of the Company' s subsidiaries. On November 9, 2005, the court entered an order staying *Office Depot* pending resolution of *In re Insurance Brokerage Antitrust Litigation*. The plaintiff in *Office Depot* has appealed. The Company believes that these lawsuits have no merit and intends to defend vigorously.

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. 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 condition or liquidity.

On July 23, 2004, the Company announced that it was seeking guidance from the staff of the Division of Corporation Finance of the SEC with respect to the appropriate purchase accounting treatment for certain second quarter 2004 adjustments totaling $1.63 billion ($1.07 billion after-tax). The Company recorded these adjustments as charges in its consolidated statement of income in the second quarter of 2004. Through an informal comment process, the staff of the Division of Corporation Finance has subsequently asked for further information, which the Company has provided. Specifically, the staff has asked for information concerning the Company' s adjustments to certain of SPC' s insurance reserves and reserves for reinsurance recoverables and premiums due from policyholders, and how those adjustments may relate to SPC' s reserves for periods prior to the merger of SPC and TPC. After reviewing the staff' s questions and comments, the Company continues to believe that its accounting treatment for these adjustments is appropriate. If, however, the staff disagrees, some or all of the adjustments being discussed may not be recorded as charges in the Company' s consolidated statement of income, thereby increasing net income for the second quarter and full year 2004 and increasing shareholders' equity at June 30, 2006 and December 31, 2005 and 2004, in each case by the approximate after-tax amount of the change. The effect on tangible shareholders' equity (adjusted for the effects of deferred taxes associated with goodwill and intangible assets) at June 30, 2006 and December 31, 2005 and 2004 would not be material. Increases to goodwill and deferred tax liabilities would be reflected on the Company' s balance sheet as of April 1, 2004, either due to purchase accounting or adjustment of SPC' s reserves prior to the merger of SPC and TPC. On May 3, 2006, the Company received a letter from the Division of Enforcement of the SEC (the "Division") advising the Company that it is conducting an inquiry relating to the second quarter 2004 adjustments and the April 1, 2004 merger of SPC and TPC. The Company is cooperating with the Division' s requests for information.

Other Commitments and Guarantees

Commitments

Investment Commitments–The Company has long-term commitments to fund venture capital investments through its subsidiary, St. Paul Venture Capital VI, LLC, through new and existing partnerships and certain other venture capital entities. The Company' s total future estimated obligations related to its venture capital investments were $99 million and $128 million at June 30, 2006 and December 31, 2005, respectively. The Company also has unfunded commitments to partnerships, joint ventures and certain private equity investments in which it invests. These additional commitments were $1.15 billion and $803 million at June 30, 2006 and December 31, 2005, respectively.

Guarantees

The Company has certain contingent obligations for guarantees related to agency loans and letters of credit, issuance of debt securities, third party loans related to venture capital investments and various indemnifications related to the sale of business entities.

During the first quarter of 2006, the Company entered into construction loan and performance guarantees relating to an investment in a real estate development joint venture. The maximum obligation for the guarantees was $55 million.

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 close, and in certain cases obligations arising from undisclosed liabilities, adverse reserve development or certain named litigation. Such indemnification provisions generally survive for periods ranging from 12 months following the applicable closing date to the expiration of the relevant statutes of limitations, or in some cases agreed upon term limitations. As of June 30, 2006, the aggregate amount of the Company' s obligation for those indemnifications that are quantifiable related to sales of business entities was $1.84 billion. 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. Included in the indemnification obligations at June 30, 2006 was $182 million related to the Company' s variable interest in Camperdown UK Limited, which SPC sold in December 2003. The Company' s variable interest results from an agreement to indemnify the purchaser in the event a specified reserve deficiency develops, a reserve-related foreign exchange impact occurs, or a foreign tax adjustment is imposed on a pre-sale reporting period. The fair value of this obligation as of June 30, 2006 was $68 million, which was included in "Other Liabilities" on the Company' s consolidated balance sheet.

10. SHARE-BASED INCENTIVE COMPENSATION

The Company has a share-based incentive compensation plan, The St. Paul Travelers Companies, Inc. 2004 Stock Incentive Plan (the 2004 Incentive Plan), which was adopted in July 2004 following the merger of SPC and TPC. The purposes of the 2004 Incentive Plan are to reward the efforts of the Company' s non-employee directors, executive officers and other employees and to attract new personnel by providing incentives in the form of stock-based awards. The 2004 Incentive Plan permits grants of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, deferred stock, stock units, performance awards and other stock-based or stockdenominated awards with respect to the Company' s common stock. The number of shares of the Company' s common stock authorized for grant under the 2004 Incentive Plan is 35 million shares, subject to additional shares that may be available for awards as described below.

In connection with the adoption of the 2004 Incentive Plan, the legacy share-based incentive compensation plans of TPC and of SPC were terminated. Outstanding grants were not affected by the termination of these plans, including the grant of reload options related to prior option grants under the legacy TPC and the legacy SPC share-based incentive compensation plans.

10. SHARE-BASED INCENTIVE COMPENSATION

The 2004 Incentive Plan is the only plan pursuant to which future stock-based awards may be granted. In addition to the 35 million shares initially authorized for issuance under the 2004 Incentive Plan, the following will not be counted towards the 35 million shares available and will be available for future grants under the 2004 Incentive Plan: (i) shares of common stock subject to an award that expires unexercised, that is forfeited, terminated or canceled, that is settled in cash or other forms of property, or otherwise does not result in the issuance of shares of common stock, in whole or in part; (ii) shares that are used to pay the exercise price of stock options and shares used to pay withholding taxes on awards generally; and (iii) shares purchased by the Company on the open market using cash option exercise proceeds; provided, however, that the increase in the number of shares of common stock available for grant pursuant to such market purchases shall not be greater than the number that could be repurchased at fair market value on the date of exercise of the stock option giving rise to such option proceeds. These provisions also apply to awards granted under the legacy TPC and legacy SPC share-based incentive compensation plans that were outstanding on the effective date of the 2004 Incentive Plan, except for shares delivered to or retained in the legacy TPC Plan in connection with the withholding of taxes applicable to the exercise of outstanding options that have reload features.

The Company also has a compensation program for non-employee directors (the 2004 Director Compensation Program). Under the 2004 Director Compensation Program, non-employee directors' compensation consists of an annual retainer, a deferred stock award and a stock option award. Each non-employee director may choose to receive all or a portion of his or her annual retainer and any committee chair or co-chair fees paid in the form of cash, common stock or deferred stock. Deferred stock for the annual retainer, and committee chair and co-chair fees, is elected pursuant to the St. Paul Travelers Deferred Compensation Plan for Non-Employee Directors that the Board adopted after the merger and is vested upon grant. The annual deferred stock awards vest one year after the date of award. Any of the deferred stock awards may accumulate until distribution at a future date or upon termination of a director' s service. The shares of the Company' s common stock issued under the 2004 Director Compensation Program, including shares of deferred stock, are awarded under the 2004 Incentive Plan.

Stock Option Awards

Stock option awards granted to eligible officers and key employees are granted having a ten-year term with an exercise price equal to the fair market value of the Company' s common stock on the date of grant. The stock options granted generally vest upon meeting certain years of service criteria. Except as the Compensation Committee of the Board may allow in the future, stock options cannot be sold or transferred by the participant. The vesting terms for stock options granted under the 2004 Incentive Plan and the legacy TPC and legacy SPC plans are as follows:

Period Option granted	Option Award Vesting terms
2006	Options vest at end of 3-year period (cliff vest)
April 2004 thru 2005	Options vest over 4-year period, 50% on 2nd anniversary of the date of grant, and 25% of the option shares vest on each of the 3rd and 4th anniversaries of the grant date. Certain 2005 special option shares vest 50% on each of the 4th and 5th anniversaries of the grant date.
Prior to April 2004	Options vest over 4-year period, 25% each year on the anniversary of the grant date; or options vest over 5-year period, 20% each year on the anniversary of the grant date.

In addition to the regular stock option awards described above, certain stock option awards that were granted under the legacy share-based incentive plans of TPC and SPC permit an employee exercising an option to be granted a new option (a reload option) at an exercise price equal to the fair market value of the Company common stock on the date of the reload grant. The legacy TPC reload option is permitted on the stock option awards granted prior to January 2003 at an amount

equal to the number of shares of the common stock used to satisfy both the exercise price and withholding taxes due upon exercise of an option and vest six months after the grant date and are exercisable for the remaining term of the related original option. The legacy SPC reload option is permitted on stock option awards granted between February 2002 and November 2003 in an amount equal to the number of shares of the common stock used to satisfy both the exercise price and withholding taxes due upon exercise of an option and vest one year after the grant date and are exercisable for the remaining term of the related original option.

The fair value of each option award is estimated on the date of grant by application of a variation of the Black-Scholes option pricing model using the assumptions noted in the following table. The expected term of newly granted stock options is the time to vest plus half the remaining time to expiration. This considers the vesting restriction and represents an even pattern of exercise behavior over the remaining term. Reload options are exercisable for the remaining term of the original option and therefore would generally have a shorter expected term. The expected volatility is based on the average historical volatility of the common stock of an industry peer group of entities, due to the limited Company stock history, over the estimated option term based on the mid-month of the option grant. The expected dividend is based upon the Company' s current quarter dividend annualized and assumed to be constant over the expected option term. The risk-free interest rate for each option is the interpolated market yield for the mid-month of the option grant on a U.S. Treasury bill with a term comparable to the expected option term of the granted stock option. Shares received through option exercises under the reload program are subject to restriction on sale. Discounts, as measured by the estimated cost of protection, have been applied to the fair value of reload options granted to reflect these sales restrictions. The following assumptions were used in estimating the fair value of options on grant date for the six months ended June 30, 2006:

	Original Grants	Reload Grants
Expected term of stock options	6 - 7 years	1 - 6 years
Expected volatility of the Company' s stock	23.8% - 32.0%	17.2% - 30.4%
Weighted average volatility	30.4%	19.6%
Expected annual dividend per share	$0.92 - $1.04	$0.92 - $1.04
Risk free rate	4.30% - 4.98%	4.31% - 4.98%

A summary of stock option activity under the Company' s 2004 Incentive Plan and the legacy TPC and legacy SPC share-based incentive compensation plans as of and for the six months ended June 30, 2006 is as follows:

Stock Options	Number	Weighted Average Exercise Price	Weighted Average Contractual Life Remaining	Aggregate Intrinsic Value ($ in millions)
Outstanding, beginning of year	43,864,909	$ 41.81		
Granted:				
Original	2,626,612	44.76		
Reload	202,746	45.27		
Exercised	(1,795,751)	32.77		
Forfeited or expired	(1,384,516)	46.84		
Outstanding, end of period	43,514,000	$ 42.21	5.3 years	$ 194
Vested at end of period (1)	35,249,931	$ 42.37	4.7 years	$ 163

Exercisable at end of period	**33,349,114**	**$**	**42.37**	**4.5 years**	**$**	**158**

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

The following table presents additional information regarding original and reload grants for the six months ended June 30, 2006.

	Original Grants		Reload Grants	
Weighted average grant-date fair value of options granted (per share)	**$**	**13.61**	**$**	**4.91**
Total intrinsic value of options exercised during the period (in millions)	**$**	**20**	**$**	**1**

Restricted Stock, Deferred Stock and Performance Share Award Programs

Awards of restricted stock and deferred stock are made to eligible officers and key employees pursuant to the 2004 Incentive Plan. Such awards include restricted stock grants under the Capital Accumulation Program (CAP) and Equity Awards program established pursuant to the 2004 Incentive Plan. Awards issued under the CAP program are in the form of restricted stock and the number of shares included in the restricted stock award is calculated at a 10% discount from the market price on the date of the award and generally vest in full after a two-year period from the date of grant. The CAP program has been discontinued following the issuance of CAP awards in February 2006. Other restricted stock awards issued under the Equity Awards program generally vest in full after a three-year period from the date of grant. Except under limited circumstances, during this period the stock cannot be sold or transferred by the participant, who is required to render service to the Company during the restricted period. Awards granted to non-U.S. participants are in the form of deferred stock awards. These deferred stock awards are granted at market price, generally vest after three years from the date of grant and are subject to the same conditions as the restricted stock awards except that the shares are not issued until the vesting criteria are satisfied.

On October 25, 2005, the Company' s Board of Directors approved a Performance Share Awards Program pursuant to the 2004 Incentive Plan. Under the program, which became effective beginning in 2006, the Company may issue performance share awards to certain employees of the Company who hold positions of Vice President (or its equivalent) or above. The performance awards represent target shares that provide the recipient the right to earn shares of the Company' s common stock based upon the Company' s attainment of certain performance goals. The performance goals for performance awards granted in 2006 are based on the Company' s adjusted return on equity over a three-year performance period. If performance falls short of targeted performance, none or only a portion of the shares will vest after the three-year performance period from date of grant. If performance exceeds targeted performance, more than 100% (up to a maximum of 160%) of target shares and accumulated dividend equivalents will vest after the three-year performance period from date of grant.

The fair value of restricted stock, deferred stock and performance shares is measured at the market price of the Company stock at date of grant.

The total fair value of shares that vested during the six months ended June 30, 2006 was $53 million.

A summary of restricted stock, deferred stock awards and performance share activity under the Company' s 2004 Incentive Plan and the legacy TPC and legacy SPC share-based incentive compensation plans as of and for the six months ended June 30, 2006 is as follows:

	Restricted and Deferred Shares			Performance Shares		
Other Equity Instruments	**Number**		**Weighted Average Grant Date Fair Value**	**Number**		**Weighted Average Grant Date Fair Value**
Outstanding, beginning of year	**3,697,335**	**$**	**35.53**	**–**	**$**	**–**
Granted	**2,115,597**		**43.32**	**375,717**		**44.78**
Vested (1)	**(1,170,120)**		**35.63**	**–**		**–**

Forfeited	(91,901)	38.98	(4,950)		44.80
Outstanding, end of period	4,550,911	$ 39.06	370,767	$	44.78

(1) Represents awards for which the requisite service has been rendered including those that are retirement eligible. Excludes performance shares which remain subject to attainment of a performance condition.

Share-Based Compensation Recognition

The compensation cost for awards subject to a service condition is based upon the number of equity instruments for which the requisite service period is expected to be rendered. Awards granted to retiree-eligible or to employees that become retiree-eligible before an awards vesting date are considered to have met the requisite service condition. The compensation cost for awards subject to a performance condition is based upon the probable outcome that the performance condition will be achieved. The compensation cost reflects an estimated annual forfeiture rate of 5% over the requisite service period of the awards. That estimate is revised if subsequent information indicates that the actual number of instruments expected to vest is likely to differ from previous estimates. Compensation cost for awards are recognized on a straight-line basis over the requisite service period. For awards that have a graded vesting schedule, the compensation cost is recognized on a straight-line basis over the requisite service period for each separate vesting portion of the award as if the award was, in substance, multiple awards. The total compensation cost for all share-based incentive compensation awards recognized in earnings for the three months and six months ended June 30, 2006 was $33 million and $81 million, respectively. Included in these amounts are approximately $3.1 million and $6.6 million for the three months and six months ended June 30, 2006, respectively, of compensation costs related to awards granted, prior to the adoption of FAS 123R, to retiree-eligible or to employees that became retiree-eligible before the awards vesting date. The related tax benefits recognized in earnings were $11 million and $28 million for the three months and six months ended June 30, 2006, respectively.

As of June 30, 2006, there was $182 million of total unrecognized compensation cost related to all nonvested share-based incentive compensation awards. This includes stock options, restricted stock, deferred stock and performance shares granted under the Company’ s 2004 Incentive Plan and legacy TPC and legacy SPC share-based incentive compensation plans. The unrecognized compensation cost is expected to be recognized over a weighted-average period of 1.9 years.

Upon adoption of FAS 123R, the Company had $9 million of unrecognized pretax compensation cost related to the portion of awards granted prior to the Company’ s adoption of FAS 123 (January 1, 2003) which remained unvested and outstanding. These compensation costs are being recognized ratably over the remaining requisite service period of approximately fifteen months.

The requirement to report unearned compensation as contra-equity in the consolidated balance sheet was eliminated by FAS 123R. Accordingly, the Company’ s unearned compensation balances were reclassified to common stock for all periods presented.

Cash received from the exercise of employee stock options under share-based compensation plans totaled $58 million for the six months ended June 30, 2006. The tax benefit realized for tax deductions from employee stock option exercises totaled $7 million for the six months ended June 30, 2006.

The Company had adopted the fair value method of accounting under FAS 123, *Accounting for Stock-based Compensation,* on January 1, 2003 using the modified prospective method of recognition in accordance with FAS 148, *Accounting for Stock-based Compensation-Transition and Disclosure,* to awards granted or modified after December 31, 2002. The Company had retained the recognition and measurement (intrinsic value) principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees,* for stock-based employee awards granted prior to January 1, 2003. The following table illustrates the effect on net income and earnings per share for each period indicated as if the Company had applied the fair value recognition provisions of FAS 123R to all outstanding and unvested stock-based employee awards.

(in millions, except per share data)	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
Net income (loss), as reported	$ 1,069	$ (275)	$ 1,281	$ 312
Add: stock-based employee compensation expense included in reported net income (loss), net of related tax effects (1)	15	14	31	19
Deduct: Stock-based employee compensation expense determined under fair value based method, net of related tax effect (2)	(18)	(20)	(37)	(32)
Net income (loss), pro forma	$ 1,066	$ (281)	$ 1,275	$ 299
Earnings per share				
Basic−as reported	$ 1.59	$ (0.42)	$ 1.91	$ 0.56
Diluted−as reported	1.52	(0.42)	1.84	0.56
Basic−pro forma	1.59	(0.43)	1.90	0.54
Diluted−pro forma	1.52	(0.43)	1.83	0.54

(1) Represents compensation expense on all restricted stock and stock option awards granted after January 1, 2003.

(2) Includes the compensation expense added back in (1).

11. INSURANCE CLAIM RESERVES

In February 2006, following approval by the respective managing agencies, the 2003 and prior years of account of Lloyd' s Syndicates 5000 and 779 closed through reinsurance to close (RITC) into the 2004 year of account, for which the Company is the capital provider through its 100% ownership of Lloyd' s members F&G UK Underwriters, Ltd. and Aprilgrange, Ltd.. The RITC was effective January 1, 2006. The RITC resulted in the Company acquiring $746 million of insurance liabilities and an equal amount of assets, including $470 million of investments, $243 million of reinsurance recoverables, $29 million of cash and other net assets during the first quarter of 2006. There was no impact on the Company' s results of operations at the time the RITC was recorded.

12. SHARE REPURCHASE PROGRAM

On May 2, 2006, the Company' s Board of Directors authorized a program to repurchase up to $2 billion of shares of the Company' s common stock. Under this program, 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. This program does 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 corporate and regulatory requirements, price, catastrophe losses and other market conditions. During the three months ended June 30, 2006, the Company repurchased 5,638,335 shares under the program for a total cost of approximately $250 million, or an average of $44.37 per share.

13. ISSUANCE OF SENIOR DEBT

In June 2006, the Company issued $400 million aggregate principal amount of 6.25% senior unsecured notes due June 20, 2016 and $400 million aggregate principal amount of 6.75% senior unsecured notes due June 20, 2036. The notes were issued at a discount, resulting in effective interest rates of 6.30% and 6.86%, respectively. The notes pay interest semi-annually on June 20 and December 20 of each year, beginning December 20, 2006, and rank equally with all of the Company' s other senior unsecured indebtedness. Either series of senior notes are redeemable in whole or in part from time to time prior to maturity at a redemption price equal to the greater of: 100% of the principal amount of senior notes to be redeemed; or the sum of the present values of the remaining scheduled payments of principal and interest on the senior notes to be redeemed (exclusive of interest accrued to the date of redemption) discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the then current treasury rate plus 20 basis points for the 6.25% senior unsecured notes due June 20, 2016 and 25 basis points for the 6.75% senior unsecured notes due June 20, 2036. Net proceeds from the issuances (after original issue discount and expenses) totaled approximately $786 million.

14. CONSOLIDATING FINANCIAL STATEMENTS OF THE ST. PAUL 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 St. Paul Travelers Companies, Inc. has fully and unconditionally guaranteed certain debt obligations of TPC, its wholly-owned subsidiary, which totaled $2.64 billion as of June 30, 2006.

Prior to the merger of SPC and TPC, 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 St. Paul 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.

CONSOLIDATING STATEMENT OF INCOME (Unaudited)
For the three months ended June 30, 2006

(in millions)	TPC	Other Subsidiaries	St. Paul Travelers (1)	Eliminations	Consolidated
Revenues					
Premiums	$ 3,458	$ 1,723	$ –	$ –	$ 5,181
Net investment income	581	268	25	–	874
Fee income	152	1	–	–	153
Net realized investment gains (losses)	(7)	24	(7)	–	10
Other revenues	33	3	3	(2)	37
Total revenues	4,217	2,019	21	(2)	6,255
Claims and expenses					
Claims and claim adjustment expenses	2,127	1,026	–	–	3,153
Amortization of deferred acquisition costs	533	281	–	–	814
General and administrative expenses	573	288	7	(2)	866
Interest expense	35	–	43	–	78
Total claims and expenses	3,268	1,595	50	(2)	4,911
Income (loss) before income taxes	949	424	(29)	–	1,344
Income tax expense (benefit)	271	113	(10)	–	374
Equity in earnings of subsidiaries, net of tax	–	–	989	(989)	–
Net income	$ 678	$ 311	$ 970	$ (989)	$ 970

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

CONSOLIDATING STATEMENT OF INCOME (Unaudited)
For the six months ended June 30, 2006

(in millions)	TPC	Other Subsidiaries	St. Paul Travelers (1)	Eliminations	Consolidated
Revenues					
Premiums	$ 6,797	$ 3,375	$ –	$ –	$ 10,172
Net investment income	1,195	511	43	–	1,749
Fee income	301	2	–	–	303
Net realized investment gains (losses)	(3)	35	(28)	–	4
Other revenues	62	14	6	(5)	77
Total revenues	8,352	3,937	21	(5)	12,305
Claims and expenses					
Claims and claim adjustment expenses	4,162	2,033	–	–	6,195
Amortization of deferred acquisition costs	1,062	552	–	–	1,614
General and administrative expenses	1,101	551	13	(5)	1,660
Interest expense	70	–	84	–	154
Total claims and expenses	6,395	3,136	97	(5)	9,623
Income (loss) before income taxes	1,957	801	(76)	–	2,682
Income tax expense (benefit)	514	222	(30)	–	706
Equity in earnings of subsidiaries, net of tax	–	–	2,022	(2,022)	–
Net income	$ 1,443	$ 579	$ 1,976	$ (2,022)	$ 1,976

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

CONSOLIDATING STATEMENT OF INCOME (Unaudited)
For the three months ended June 30, 2005

(in millions)	TPC	Other Subsidiaries	St. Paul Travelers (1)	Eliminations	Consolidated
Revenues					
Premiums	$ 3,611	$ 1,498	$ –	$ –	$ 5,109
Net investment income	551	235	(11)	–	775
Fee income	163	2	–	–	165
Net realized investment gains (losses)	(62)	(30)	37	–	(55)
Other revenues	34	9	5	(5)	43
Total revenues	4,297	1,714	31	(5)	6,037
Claims and expenses					
Claims and claim adjustment expenses	2,127	974	–	–	3,101
Amortization of deferred acquisition costs	579	204	–	–	783
General and administrative expenses	580	182	32	(5)	789
Interest expense	36	–	34	–	70
Total claims and expenses	3,322	1,360	66	(5)	4,743
Income (loss) from continuing operations before income taxes	975	354	(35)	–	1,294
Income tax expense (benefit)	279	225	(141)	–	363
Equity in earnings of subsidiaries, net of tax	–	–	1,016	(1,016)	–
Income from continuing operations	696	129	1,122	(1,016)	931

Discontinued operations					
Operating income (loss), net of taxes	–	(1)	1	–	–
Gain (loss) on disposal, net of taxes	–	192	(54)	–	138
Income (loss) from discontinued operations	–	191	(53)	–	138
Net income	$ 696	$ 320	$ 1,069	$ (1,016)	$ 1,069

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

CONSOLIDATING STATEMENT OF INCOME (Unaudited)

For the six months ended June 30, 2005

(in millions)	TPC	Other Subsidiaries	St. Paul Travelers (1)	Eliminations	Consolidated
Revenues					
Premiums	$ 7,101	$ 3,127	$ –	$ –	$ 10,228
Net investment income	1,081	467	(8)	–	1,540
Fee income	331	5	–	–	336
Net realized investment losses	(28)	(22)	(5)	–	(55)
Other revenues	70	22	6	(5)	93
Total revenues	8,555	3,599	(7)	(5)	12,142
Claims and expenses					
Claims and claim adjustment expenses	4,253	2,071	–	–	6,324
Amortization of deferred acquisition costs	1,154	439	–	–	1,593
General and administrative expenses	1,192	387	28	(5)	1,602
Interest expense	71	(1)	71	–	141
Total claims and expenses	6,670	2,896	99	(5)	9,660
Income (loss) from continuing operations before income taxes	1,885	703	(106)	–	2,482
Income tax expense (benefit)	541	311	(178)	–	674
Equity in earnings of subsidiaries, net of tax	–	–	1,846	(1,846)	–
Income (loss) from continuing operations	1,344	392	1,918	(1,846)	1,808
Discontinued operations					
Operating loss, net of taxes	–	(82)	(583)	–	(665)
Gain (loss) on disposal, net of taxes	–	192	(54)	–	138
Income (loss) from discontinued operations	–	110	(637)	–	(527)
Net income	$ 1,344	$ 502	$ 1,281	$ (1,846)	$ 1,281

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

CONSOLIDATING BALANCE SHEET (Unaudited)

At June 30, 2006

(in millions)	TPC	Other Subsidiaries	St. Paul Travelers (1)	Eliminations	Consolidated
Assets					
Fixed maturities, available for sale at fair value (including $2,055 subject to securities lending and repurchase agreements) (amortized cost $61,091)	$ 38,192	$ 21,546	$ 436	$ –	$ 60,174
Equity securities, at fair value (cost $510)	367	110	60	–	537
Real estate	7	743	–	–	750
Mortgage loans	96	16	–	–	112
Short-term securities	1,832	947	2,168	–	4,947
Other investments	1,882	1,288	80	–	3,250
Total investments	42,376	24,650	2,744	–	69,770
Cash	189	81	4	–	274
Investment income accrued	474	305	9	(7)	781
Premiums receivable	4,026	2,346	–	–	6,372
Reinsurance recoverables	13,701	5,111	–	–	18,812
Ceded unearned premiums	1,023	401	–	–	1,424
Deferred acquisition costs	1,311	312	–	–	1,623
Deferred tax asset	1,551	611	120	–	2,282
Contractholder receivables	4,675	795	–	–	5,470
Goodwill	2,412	1,029	–	–	3,441
Intangible assets	295	544	–	–	839
Investment in subsidiaries	–	–	24,212	(24,212)	–
Other assets	1,892	678	426	(198)	2,798
Total assets	$ 73,925	$ 36,863	$ 27,515	$ (24,417)	$ 113,886
Liabilities					
Claims and claim adjustment expense reserves	$ 39,501	$ 20,695	$ –	$ –	$ 60,196
Unearned premium reserves	7,604	3,699	–	–	11,303
Contractholder payables	4,675	795	–	–	5,470
Payables for reinsurance premiums	337	454	–	–	791
Debt	2,622	152	4,042	(198)	6,618
Other liabilities	4,410	1,632	421	(7)	6,456
Total liabilities	59,149	27,427	4,463	(205)	90,834
Shareholders' equity					
Preferred Stock Savings Plan−convertible preferred stock (0.4 shares issued and outstanding)	–	–	140	–	140
Common stock (1,750.0 shares authorized; 691.4 shares issued and outstanding)	–	745	18,259	(745)	18,259
Additional paid-in capital	9,902	7,715	–	(17,617)	–
Retained earnings	5,022	1,238	5,382	(6,260)	5,382
Accumulated other changes in equity from nonowner sources	(148)	(262)	(406)	410	(406)
Treasury stock, at cost (7.4 shares)	–	–	(323)	–	(323)
Total shareholders' equity	14,776	9,436	23,052	(24,212)	23,052
Total liabilities and shareholders' equity	$ 73,925	$ 36,863	$ 27,515	$ (24,417)	$ 113,886

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

CONSOLIDATING BALANCE SHEET (Unaudited)
At December 31, 2005

(in millions)	TPC	Other Subsidiaries	St. Paul Travelers (1)	Eliminations	Consolidated
Assets					
Fixed maturities, available for sale at fair value (including $2,667 subject to securities lending and repurchase agreements) (amortized cost $58,616)	$ 37,582	$ 20,957	$ 444	$ –	$ 58,983
Equity securities, at fair value (cost $538)	435	86	58	–	579
Real estate	7	745	–	–	752
Mortgage loans	107	38	–	–	145
Short-term securities	2,142	1,551	1,109	–	4,802
Other investments	1,701	1,235	90	–	3,026
Total investments	41,974	24,612	1,701	–	68,287
Cash	136	200	1	–	337
Investment income accrued	471	286	7	(3)	761
Premiums receivable	3,843	2,281	–	–	6,124
Reinsurance recoverables	14,966	4,608	–	–	19,574
Ceded unearned premiums	1,000	322	–	–	1,322
Deferred acquisition costs	1,218	309	–	–	1,527
Deferred tax asset	1,330	581	151	–	2,062
Contractholder receivables	4,422	1,094	–	–	5,516
Goodwill	2,412	1,030	–	–	3,442
Intangible assets	316	601	–	–	917
Investment in subsidiaries	–	–	23,708	(23,708)	–
Other assets	2,292	743	478	(195)	3,318
Total assets	$ 74,380	$ 36,667	$ 26,046	$ (23,906)	$ 113,187
Liabilities					
Claims and claim adjustment expense reserves	$ 41,213	$ 19,877	$ –	$ –	$ 61,090
Unearned premium reserves	7,418	3,509	–	–	10,927
Contractholder payables	4,422	1,094	–	–	5,516
Payables for reinsurance premiums	282	438	–	–	720
Debt	2,623	147	3,272	(192)	5,850
Other liabilities	4,297	2,017	471	(4)	6,781
Total liabilities	60,255	27,082	3,743	(196)	90,884
Shareholders' equity					
Preferred Stock Savings Plan−convertible preferred stock (0.5 shares issued and outstanding)	–	–	153	–	153
Common stock (1,750.0 shares authorized; 693.4 shares issued and outstanding)	(24)	745	18,096	(721)	18,096
Additional paid-in capital	9,916	7,724	–	(17,640)	–
Retained earnings	3,835	1,154	3,750	(4,989)	3,750
Accumulated other changes in equity from nonowner sources	398	(38)	351	(360)	351
Treasury stock, at cost (1.2 shares)	–	–	(47)	–	(47)
Total shareholders' equity	14,125	9,585	22,303	(23,710)	22,303

Total liabilities and shareholders' equity	$ 74,380	$ 36,667	$ 26,046	$ (23,906)	$ 113,187

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

CONSOLIDATING STATEMENT OF CASH FLOWS (Unaudited)

For the six months ended June 30, 2006

(in millions)	TPC	Other Subsidiaries	St. Paul Travelers (1)	Eliminations	Consolidated
Cash flows from operating activities					
Net income	$ 1,443	$ 579	$ 1,976	$ (2,022)	$ 1,976
Net adjustments to reconcile net income to net cash provided by operating activities	(553)	(119)	(1,915)	2,022	(565)
Net cash provided by (used in) operating activities	890	460	61	–	1,411
Cash flows from investing activities					
Proceeds from maturities of investments:					
Fixed maturities	1,678	968	4	–	2,650
Mortgage loans	7	22	–	–	29
Proceeds from sales of investments:					
Fixed maturities	1,625	1,528	21	–	3,174
Equity securities	83	43	–	–	126
Purchases of investments:					
Fixed maturities	(4,817)	(3,214)	(18)	–	(8,049)
Equity securities	(3)	(61)	–	–	(64)
Real estate	–	(14)	–	–	(14)
Short-term securities sales (purchases), net	310	654	(1,057)	–	(93)
Other investments, net	47	73	–	–	120
Securities transactions in course of settlement	606	(97)	–	–	509
Other	(120)	(2)	–	–	(122)
Net cash provided by (used in) investing activities	(584)	(100)	(1,050)	–	(1,734)
Cash flows from financing activities					
Payment of debt	–	–	(4)	–	(4)
Issuance of debt	–	–	786	–	786
Dividends to shareholders	–	–	(343)	–	(343)
Issuance of common stock − employee share options	–	–	58	–	58
Excess tax benefits from share-based payment arrangements	4	2	–	–	6
Treasury shares acquired − share repurchase program	–	–	(230)	–	(230)
Treasury shares acquired − net employee share-based compensation	–	–	(17)	–	(17)
Dividends received by (paid to) parent company	(255)	(500)	755	–	–
Capital contributions and loans between subsidiaries	–	16	(16)	–	–
Other	(2)	–	3	–	1
Net cash provide by (used in) financing activities	(253)	(482)	992	–	257
Effect of exchange rate changes on cash	–	3	–	–	3
Net increase (decrease) in cash	53	(119)	3	–	(63)

Cash at beginning of period	136	200	1	–	337
Cash at end of period	$ 189	$ 81	$ 4	$ –	$ 274
Supplemental disclosure of cash flow information					
Income taxes paid (received)	$ 361	$ (106)	$ (2)	$ –	$ 253
Interest paid	$ 69	$ –	$ 95	$ –	$ 164

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

CONSOLIDATING STATEMENT OF CASH FLOWS (Unaudited)

For the six months ended June 30, 2005 (1)

(in millions)	TPC	Other Subsidiaries	St. Paul Travelers (2)	Eliminations	Consolidated
Cash flows from operating activities					
Net income (loss)	$ 1,344	$ 502	$ 1,281	$ (1,846)	$ 1,281
Net adjustments to reconcile net income to net cash provided by operating activities	(302)	355	(1,449)	1,846	450
Net cash provided by (used in) operating activities of continuing operations	1,042	857	(168)	–	1,731
Net cash provided by operating activities of discontinued operations	–	24	–	–	24
Net cash provided by (used in) operating activities	1,042	881	(168)	–	1,755
Cash flows from investing activities					
Proceeds from maturities of investments:					
Fixed maturities	1,446	974	1	–	2,421
Mortgage loans	6	–	–	–	6
Proceeds from sales of investments:					
Fixed maturities	1,882	680	149	–	2,711
Equity securities	93	18	1	–	112
Purchases of investments:					
Fixed maturities	(4,488)	(3,390)	(688)	–	(8,566)
Equity securities	(1)	(21)	–	–	(22)
Mortgage loans	–	(9)	–	–	(9)
Real estate	(6)	(16)	–	–	(22)
Short-term securities sales (purchases), net	471	861	(1,207)	–	125
Other investments, net	421	31	–	–	452
Securities transactions in course of settlement	377	(7)	93	–	463
Other	(57)	9	–	–	(48)
Net cash provided by (used in) by investing activities of continuing operations	144	(870)	(1,651)	–	(2,377)
Net cash used in investing activities of discontinued operations	–	(20)	–	–	(20)
Net cash provided by (used in) investing activities	144	(890)	(1,651)	–	(2,397)
Cash flows from financing activities					

Payment of debt	–	–	(481)	–	(481)
Dividends to shareholders	–	–	(307)	–	(307)
Issuance of common stock –- employee share options	–	–	61	–	61
Treasury shares acquired – net employee share-based compensation	–	–	(14)	–	(14)
Intercompany dividends	(860)	133	727	–	–
Capital contributions and loans between subsidiaries	–	45	(45)	–	–
Net cash provided by (used in) financing activities of continuing operations	(860)	178	(59)	–	(741)
Net cash provided by financing activities of discontinued operations	–	4	–	–	4
Net cash used in financing activities	(860)	182	(59)	–	(737)
Effect of exchange rate changes on cash	–	(4)	–	–	(4)
Elimination of cash provided by discontinued operations	–	(8)	–	–	(8)
Net proceeds from sale of discontinued operations	–	–	1,867	–	1,867
Net increase (decrease) in cash	326	161	(11)	–	476
Cash at beginning of period	166	79	17	–	262
Cash at end of period	$ 492	$ 240	$ 6	$ –	$ 738
Supplemental disclosure of cash flow information					
Income taxes paid (received)	$ 697	$ (76)	$ (250)	$ –	$ 371
Interest paid	$ 69	$ 6	$ 104	$ –	$ 179

(1) See note 2.

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

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 St. Paul Travelers Companies, Inc. (together with its subsidiaries, the Company).

EXECUTIVE SUMMARY

2006 Second Quarter Consolidated Results of Operations

- Income from continuing operations and net income of $970 million, or $1.40 per share basic and $1.36 diluted
- Net favorable prior year reserve development of $101 million pretax ($68 million after-tax)
- Net written premiums of $5.65 billion
- GAAP combined ratio of 89.8%
- Pretax net investment income of $874 million ($673 million after-tax)

2006 Second Quarter Consolidated Financial Condition

- Total assets of $113.89 billion, up $699 million from December 31, 2005
- Total investments of $69.77 billion, up $1.48 billion from December 31, 2005; fixed maturities and short-term securities comprise 93% of total investments
- Repurchased 5.6 million common shares for total cost of approximately $250 million under $2 billion share repurchase program

- Shareholders' equity of $23.05 billion, up $749 million from December 31, 2005; book value per common share of $33.14

CONSOLIDATED OVERVIEW

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

Consolidated Results of Operations

(in millions, except per share data)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Revenues				
Premiums	**$ 5,181**	$ 5,109	**$10,172**	$10,228
Net investment income	**874**	775	**1,749**	1,540
Fee income	**153**	165	**303**	336
Net realized investment gains (losses)	**10**	(55)	**4**	(55)
Other revenues	**37**	43	**77**	93
Total revenues	**6,255**	6,037	**12,305**	12,142
Claims and expenses				
Claims and claim adjustment expenses	**3,153**	3,101	**6,195**	6,324
Amortization of deferred acquisition costs	**814**	783	**1,614**	1,593
General and administrative expenses	**866**	789	**1,660**	1,602
Interest expense	**78**	70	**154**	141
Total claims and expenses	**4,911**	4,743	**9,623**	9,660
Income from continuing operations before income taxes	**1,344**	1,294	**2,682**	2,482
Income tax expense	**374**	363	**706**	674
Income from continuing operations	**970**	931	**1,976**	1,808
Discontinued operations:				
Operating loss, net of taxes	–	–	–	(665)
Gain on disposal, net of taxes	–	138	–	138
Income (loss) from discontinued operations, net of taxes	–	138	–	(527)
Net income	**$ 970**	$ 1,069	**$ 1,976**	$ 1,281
Income from continuing operations per share				
Basic	**$ 1.40**	$ 1.39	**$ 2.85**	$ 2.70
Diluted	**$ 1.36**	$ 1.33	**$ 2.76**	$ 2.58
GAAP combined ratio				
Loss and loss adjustment expense ratio	**59.5%**	59.4%	**59.2%**	60.4%
Underwriting expense ratio	**30.3**	28.2	**30.2**	28.7
GAAP combined ratio	**89.8%**	87.6%	**89.4%**	89.1%

The Company's discussions related to all items, other than net income, income from continuing operations, income (loss) from discontinued operations, and segment operating income, are presented on a pretax basis, unless otherwise noted.

Overview

Income from continuing operations in the second quarter of 2006 totaled $970 million, or $1.36 per share diluted, 4% higher than income from continuing operations of $931 million, or $1.33 per share diluted, in the same period of 2005, due to growth in net investment income, net realized investment gains (compared with net realized investment losses in the second quarter of 2005) and modestly higher net favorable prior year reserve development compared with the same period of 2005. Net favorable prior year reserve development in the second quarter of 2006 resulted from improved frequency and severity trends primarily in auto, property, and general liability, and net favorable prior year reserve development in the Company' s International operations, partially offset by net unfavorable prior year reserve development in assumed reinsurance. All of the Company' s business segments continued to produce strong underwriting results in the second quarter of 2006, despite a higher level of catastrophe losses and an increase in general and administrative expenses. For the six months ended June 30, 2006, income from continuing operations of $1.98 billion was 9% higher than in the same period of 2005, driven by the same factors impacting the growth in second quarter 2006 income.

Revenues

Earned Premiums

The $72 million increase in earned premiums in the second quarter of 2006 over the same 2005 period was driven by strong growth in the Personal segment, reflecting the impact of new business and continued renewal price increases. That growth was partially offset by a decline in Commercial earned premiums, primarily reflecting a significant decline in runoff operations. Earned premiums in the Specialty segment in the second quarter of 2006 increased slightly over the same 2005 period, as growth in the majority of businesses comprising this segment was substantially offset by the impact of the sale of certain operations. Through the first six months of 2006, earned premiums declined by $56 million compared with the same 2005 period, as strong growth in the Personal segment was more than offset by earned premium declines in the Specialty segment (primarily due to the sale of certain operations) and in the Commercial segment (driven by the decline in runoff operations).

Net Investment Income

Net investment income of $874 million in the second quarter of 2006 grew $99 million, or 13%, over the same 2005 period. Through the first six months of 2006, net investment income of $1.75 billion was $209 million, or 14%, higher than in the same period of 2005. The increases in 2006 were primarily generated by growth in the Company' s fixed maturity portfolio and higher yields on short-term securities and taxable fixed maturity securities. The amortized cost of that portfolio totaled $61.09 billion at June 30, 2006, $4.87 billion higher than at the same date in 2005. The increase in the portfolio reflected strong operational cash flows over the preceding twelve months and the investment of $532 million of proceeds in the third quarter of 2005 from the completion of the divestiture of Nuveen Investments. In addition, the Company issued senior notes in the second quarter of 2006, resulting in net proceeds of approximately $786 million that were invested in taxable fixed maturity securities. The Company' s non-fixed maturity investment portfolio also produced strong levels of net investment income in the second quarter and first six months of 2006.

The Company allocates invested assets and the related net investment income (NII) to its identified business segments. Pretax net investment income is allocated based upon an investable funds concept, which takes into account liabilities (net of non-invested assets) and appropriate capital considerations for each segment. The investment yield for investable funds reflects the duration of the loss reserves' future cash flows, the interest rate environment at the time the losses were incurred and A+ rated corporate debt instrument yields. The investment yield for capital reflects the average yield on the total investment portfolio. It is the application of the yields to the segments' investable funds and capital that determines the respective business segment' s share of actual NII.

Fee Income

The National Accounts market in the Commercial segment is the primary source of the Company' s fee-based business. The decline in fee income in the second quarter and first six months of 2006 compared with the same periods of 2005 is described in the Commercial segment discussion that follows.

Net Realized Investment Gains (Losses)

Net realized investment gains in the second quarter of 2006 totaled $10 million, compared with net realized investment losses of $55 million in the same period of 2005. The 2006 total included $41 million of net realized investment gains resulting from the sale of two venture capital holdings, which were substantially offset by $34 million of net realized investment losses from the sale of fixed maturity investments. Realized investment losses in the second quarter of 2005 included $45 million of net realized investment losses related to U.S. Treasury futures, which require a daily mark-to-market settlement and are used

to shorten the duration of the Company' s fixed maturity investment portfolio, and $42 million of impairment losses (concentrated in the venture capital portfolio). These losses were partially offset by a $60 million realized investment gain from the sale of one venture capital holding. Through the first six months of 2006, net realized investment gains totaled $4 million, compared with net realized investment losses of $55 million in the same 2005 period. The year-to-date 2006 total included $37 million of realized investment gains related to U.S. Treasury futures, $41 million of net realized gains from the venture capital sales in the second quarter described previously and $29 million of realized investment losses related to the Company' s holdings of stock purchase warrants of Platinum Underwriters Holdings, Ltd., a publicly-held company. The year-to-date 2005 total was driven by net realized investment losses related to U.S. Treasury futures and impairment losses.

Written Premiums

Consolidated gross and net written premiums were as follows:

	Three Months Ended June 30,			
	2006		2005	
(in millions)	**Gross**	**Net**	**Gross**	**Net**
Commercial	**$2,573**	**$2,217**	$2,481	$2,047
Specialty	**1,784**	**1,657**	1,758	1,545
Personal	**1,840**	**1,781**	1,670	1,624
Total	**$6,197**	**$5,655**	$5,909	$5,216

	Six Months Ended June 30,			
	2006		2005	
(in millions)	**Gross**	**Net**	**Gross**	**Net**
Commercial	**$ 5,092**	**$ 4,302**	$ 5,232	$ 4,239
Specialty	**3,454**	**2,774**	3,449	2,699
Personal	**3,461**	**3,353**	3,148	3,058
Total	**$12,007**	**$10,429**	$11,829	$ 9,996

Gross and net written premiums in the second quarter of 2006 increased 5% and 8%, respectively, over the same period of 2005. All business segments recorded strong growth in net written premiums over the second quarter of 2005. In the Commercial segment, premium growth was impacted by higher business retention rates for casualty and non-catastrophe exposed property coverages, and strong renewal price increases for Southeastern U.S. catastrophe-prone exposures. In addition, Commercial' s National Accounts market recorded an increase in net written premiums over the second quarter of 2005, primarily reflecting a lower amount of ceded premiums. In the Specialty segment, the $112 million increase in net written premium volume in the second quarter of 2006 primarily reflected increased business volume and reduced ceded premiums in the Bond operation, renewal price increases in the Company' s operations at Lloyd' s, and strong growth in Oil and Gas, Financial and Professional Services and in operations in Canada. The 10% increase in Personal net written premiums over the second quarter of 2005 was driven by continued growth in new business volume and renewal price increases. Through the first six months of 2006, gross and net written premium volume grew 2% and 4%, respectively, over the same period of 2005, primarily driven by the same factors impacting premium growth in the second quarter of the year, the impact of which were partially offset by premium declines in the Commercial and Specialty segments in the first quarter of the year.

Claims and Expenses

Claims and Claim Adjustment Expenses

Claims and claim adjustment expenses of $3.15 billion in the second quarter of 2006 were $52 million higher than the 2005 total of $3.10 billion. The 2006 total reflected $101 million of net favorable prior year reserve development and $67 million of catastrophe losses, whereas the 2005 total included $75 million of net favorable prior year reserve development and $11 million of catastrophe losses. The majority of net favorable prior year reserve development in the second quarters of both years was concentrated in the Personal segment, reflecting better than expected auto bodily injury loss experience. In addition, the Specialty segment recorded $39 million of net favorable prior year reserve development in the second quarter of

2006, primarily related to its International Specialty operations. Catastrophe losses in the second quarter of 2006 were exclusive to the Personal segment and resulted from three wind, hail and rain events in several regions of the United States. Catastrophe losses in the second quarter of 2005 were also exclusive to the Personal segment. Through the first six months of 2006, claims and claim adjustment expenses of $6.20 billion were $129 million, or 2%, lower than in the same 2005 period. Net favorable prior year reserve development in the first six months of 2006 and 2005 totaled $150 million and $130 million, respectively. Catastrophe losses in the same periods totaled $67 million and $42 million, respectively.

General and Administrative Expenses

General and administrative expenses totaled $866 million in the second quarter of 2006, compared with $789 million in the same 2005 period. The 10% increase in 2006 primarily reflected a $42 million provision for legal expenses related to investigations of various business practices by certain governmental agencies (see Part II, Item 1 − Legal Proceedings), costs related to the Company' s recently launched national advertising campaign and investments made in information systems and personnel throughout the Company' s business segments to support business growth and product development. These increases were partially offset by the impact of the favorable resolution of certain prior year state tax matters in the second quarter of 2006. Through the first six months of 2006, general and administrative expenses of $1.66 billion were 4% higher than in the same 2005 period, as the factors contributing to the increase in second quarter expenses were partially offset by certain tax benefits and lower premium tax-related expenses in the first quarter of the year.

On January 1, 2006, the Company adopted the revised Statement of Financial Accounting Standards No. 123, *Share-Based Payment* (FAS 123R), using the modified prospective method. FAS 123R amended and replaced previous guidance on measuring and recognizing the cost of employee services received in exchange for an award of equity instruments. It prescribes the fair value method of accounting as the method for recognizing share-based employee compensation. Staff Accounting Bulletin No. 107 (SAB 107) is an interpretation by the SEC Staff of the interaction between FAS 123R and certain SEC rules and regulations regarding the valuation of share-based payment arrangements. SAB 107 requires that all disclosure requirements for annual reporting be provided for interim periods during the first year of adoption, beginning with the period of adoption.

The Company had previously adopted the fair value method of accounting under FAS 123, *Accounting for Stock-based Compensation,* on January 1, 2003, using the modified prospective method, to awards granted or modified after December 31, 2002 while retaining the intrinsic value recognition and measurement for stock-based awards granted prior to January 1, 2003. There was no impact on prior period financial statements upon adoption of FAS 123R.

The impact of adopting FAS 123R is to recognize prospectively in earnings the remaining unamortized compensation cost relating to unvested awards granted prior to the Company' s adoption of FAS 123 (January 1, 2003) and which were outstanding on the date of adoption of FAS 123R (January 1, 2006). Upon adoption of FAS 123R, the Company had $9 million of unrecognized pretax compensation cost related to the portion of awards granted prior to the Company' s adoption of FAS 123 (January 1, 2003) which remained unvested and outstanding. These compensation costs are being recognized ratably over the remaining requisite service period of approximately fifteen months.

As of June 30, 2006, there was $182 million of total unrecognized compensation cost related to all nonvested share-based incentive compensation awards. The unrecognized compensation cost is expected to be recognized over a weighted-average period of 1.9 years.

Interest Expense

Interest expense in the second quarter and first six months of 2006 was $8 million and $13 million higher, respectively, than the same periods of 2005 primarily due to the issuance in November 2005 of $400 million, 5.50% senior notes and, to a lesser extent, the issuance in June 2006 of $400 million, 6.75% senior notes and $400 million, 6.25% senior notes.

GAAP Combined Ratios

The consolidated loss and loss adjustment expense ratio (loss ratio) of 59.5 in the second quarter of 2006 was virtually level with the 2005 second quarter loss ratio of 59.4. The 2006 and 2005 second quarter loss ratios included benefits of 2.0 points and 1.5 points, respectively, from net favorable prior year reserve development. Catastrophe losses accounted for 1.3 points of the 2006 second quarter loss ratio, compared with 0.2 points in the same 2005 period. Through the first six months of 2006, the loss ratio of 59.2 was 1.2 points improved over the 2005 six-month loss ratio of 60.4, primarily reflecting the

impact of favorable loss experience. The 2006 and 2005 year-to-date loss ratios included benefits of 1.5 points and 1.2 points, respectively, from net favorable prior year reserve development. Catastrophe losses accounted for 0.7 points and 0.4 points, respectively, of the year-to-date 2006 and 2005 loss ratios. The underwriting expense ratios for the second quarter and first six months of 2006 were 2.1 points and 1.5 points, respectively, higher than the underwriting expense ratios in the same 2005 periods. The increases primarily reflect the impact of the increase in general and administrative expenses described previously. In addition, the 2006 second quarter and six-month ratios were negatively impacted by a decline in National Accounts' fee income, a portion of which is accounted for as a reduction of expenses for purposes of calculating the expense ratio.

Discontinued Operations

In March 2005, the Company and Nuveen Investments jointly announced that the Company would implement a program to divest its 78% equity interest in Nuveen Investments. In the second quarter of 2005, the Company began implementing that program, which was completed through a series of transactions in the second and third quarters of 2005, resulting in net pretax cash proceeds of $2.40 billion.

The following transactions occurred in the second quarter of 2005, resulting in net pretax cash proceeds in the quarter of approximately $1.87 billion:

- The Company sold 39.9 million shares of Nuveen Investments through a public secondary offering;
- Nuveen Investments repurchased approximately 6.1 million shares of its common stock from the Company; and
- The Company entered into forward sales agreements with respect to 11.9 million shares of Nuveen Investments' common stock.

In conjunction with the first two of these transactions, the Company recorded a pretax gain on disposal of $212 million ($138 million after-tax) in the second quarter of 2005. Additionally, the Company recorded a net operating loss from discontinued operations of $665 million in the first six months of 2005, primarily consisting of a $710 million tax expense due to the difference between the tax basis and the GAAP carrying value of the Company' s investment in Nuveen Investments, partially offset by the Company' s share of Nuveen Investments' net income for the six months ended June 30, 2005.

Upon closing of the sale of the 39.9 million shares in the secondary offering and the repurchase of the 6.1 million shares by Nuveen Investments in the second quarter of 2005, the Company' s ownership interest in Nuveen Investments declined from approximately 78% to 31%; accordingly, the Company' s remaining investment in Nuveen Investments at June 30, 2005 was accounted for using the equity method of accounting.

RESULTS OF OPERATIONS BY SEGMENT

Commercial

The Commercial segment offers a broad array of property and casualty insurance and insurance-related services to its clients. Commercial is organized into the following three marketing and underwriting groups, each of which focuses on a particular client base and which collectively comprise Commercial' s core operations:

- *Commercial Accounts* serves primarily mid-sized businesses for casualty products and large and mid-sized businesses for property products. In addition to the traditional middle market, Commercial Accounts includes seven units dedicated to unique business needs.

- *Select Accounts* serves small businesses and offers commercial multi-peril, property, general liability, commercial auto and workers' compensation insurance.

- *National Accounts* comprises three distinct business units. The largest provides casualty products and services to large companies, with particular emphasis on workers' compensation, general liability and automobile liability. National Accounts also includes the commercial residual market business, which primarily offers workers' compensation products and services to the involuntary market. National Accounts also includes Discover Re, which provides unbundled property and casualty insurance products to insureds who utilize programs such as self-insurance, collateralized deductibles and captive reinsurers.

Commercial also includes the Special Liability Group (which manages the Company' s asbestos and environmental liabilities); the assumed reinsurance, health care, and certain international and other runoff operations; and policies written by the Company' s Gulf operation (Gulf), which was placed into runoff in 2004. These operations are collectively referred to as Commercial Other.

Results of the Company' s Commercial segment were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2006	2005	2006	2005
Revenues:				
Earned premiums	**$ 2,098**	$ 2,164	**$ 4,128**	$ 4,368
Net investment income	**510**	498	**1,027**	978
Fee income	**142**	156	**281**	319
Other revenues	**7**	13	**13**	28
Total revenues	**$ 2,757**	$ 2,831	**$ 5,449**	$ 5,693
Total claims and expenses	**$ 2,045**	$ 2,101	**$ 4,014**	$ 4,359
Operating income	**$ 517**	$ 530	**$ 1,052**	$ 978
Loss and loss adjustment expense ratio	**60.0%**	61.7%	**60.1%**	63.5%
Underwriting expense ratio	**30.4**	27.8	**30.0**	28.5

GAAP combined ratio	**90.4%**	89.5%	**90.1%**	92.0%

Overview

Operating income of $517 million in the second quarter of 2006 was $13 million, or 2%, below operating income of $530 million in the same 2005 period, primarily reflecting an increase in general and administrative expenses and reductions in the amount of fee income and net favorable prior year reserve development. Through the first six months of 2006, operating income of $1.05 billion was $74 million, or 8%, higher than operating income of $978 million in the same period of 2005. Both periods of 2006 benefited from growth in net investment income. In the second quarter and first six months of 2006, declines in earned premiums and fee income were substantially offset by reductions in claims and claim adjustment expenses. There were no catastrophe losses incurred in the second quarter or first six months of 2006 and 2005.

Earned Premiums

Earned premiums of $2.10 billion and $4.13 billion in the second quarter and first six months of 2006, respectively, declined 3% and 5% from the respective periods of 2005. The second quarter decline reflected a continuing reduction in runoff operations' earned premiums, where business is being intentionally non-renewed. The year-to-date decline reflected the runoff impact, as well as a decline in first quarter earned premiums in ongoing operations due to a lower level of written premiums in 2005.

Net Investment Income

Refer to the "Net Investment Income" section of the "Revenues" discussion herein for a description of the factors contributing to the increase in the Company's net investment income in 2006.

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, and claims and policy management services to workers' compensation residual market pools, automobile assigned risk plans and to self-insurance pools. The $14 million and $38 million declines in fee income in the second quarter and first six months of 2006, respectively, compared with the same 2005 periods, resulted from lower serviced claim volume in workers' compensation residual market pools, the impact on fee income from lower loss costs due to California workers' compensation reforms and lower new business volume due to increased competition.

Claims and Expenses

Claim and claim adjustment expenses in the second quarter of 2006 totaled $1.32 billion, down $74 million, or 5%, from the same period of 2005. Through the first six months of 2006, claims and claims adjustment expenses of $2.63 billion were $285 million, or 10%, lower than in the same 2005 period. The declines in both periods were related to the decline in earned premiums and also reflected the continuation of favorable loss experience. Net favorable prior year reserve development totaled $4 million and $10 million in the second quarters of 2006 and 2005, respectively. Net favorable prior year reserve development resulting from improved frequency and severity trends primarily in the auto, property, and general liability lines of business in Commercial Accounts and Select Accounts in the second quarter of 2006 was largely offset by net unfavorable prior year reserve development in assumed reinsurance, which is in runoff. Through the first six months of 2006 and 2005, net favorable prior year reserve development totaled $14 million and $4 million, respectively. There were no catastrophe losses incurred in the Commercial segment during the six months ended June 30, 2006 and 2005.

General and administrative expenses in the second quarter 2006 were $28 million higher than in the same period of 2005. The increase primarily reflected a provision for legal expenses related to investigations of various business practices by certain governmental agencies, costs associated with the Company' s recently launched national advertising campaign and additional expenditures related to information systems and personnel to support business growth and product development. Through the first six months of 2006, general and administrative expenses were $29 million lower than in the same period of 2005, as the second quarter increase in expenses described above was more than offset by expense reductions in the first quarter of the year related to a decline in business volume and a decline in premium tax-related expenses.

GAAP Combined Ratio

The 1.7 point and 3.4 point improvements in the loss and loss adjustment expense ratios for the second quarter and first six months of 2006, respectively, over the same 2005 periods primarily reflected the continuation of favorable loss experience. The loss and loss expense ratio in the second quarter and first six months of 2006 reflected benefits from net favorable prior year loss development of 0.2 points and 0.3 points, respectively. The benefits from net favorable prior year reserve development in the same periods of 2005 were 0.5 points and 0.1 points, respectively. The underwriting expense ratios for the second quarter and first six months of 2006 were 2.6 points and 1.5 points higher than the underwriting expense ratios in the respective periods of 2005, primarily reflecting the second quarter increase in expenses described above, and the impact of declines in fee income and earned premiums. (A portion of fee income is accounted for as a reduction of expenses for purposes of calculating the expense ratio).

Written Premiums

The Commercial segment' s gross and net written premiums by market were as follows:

	Three Months Ended June 30,			
	2006		2005	
(in millions)	Gross	Net	Gross	Net
Commercial Accounts	**$1,291**	**$1,196**	$1,134	$1,068
Select Accounts	**713**	**705**	729	719
National Accounts	**549**	**298**	577	238
Total Commercial Core	**2,553**	**2,199**	2,440	2,025
Commercial Other	**20**	**18**	41	22
Total Commercial	**$2,573**	**$2,217**	$2,481	$2,047

	Six Months Ended June 30,			
	2006		2005	
(in millions)	Gross	Net	Gross	Net
Commercial Accounts	**$2,538**	**$2,329**	$2,363	$2,195
Select Accounts	**1,408**	**1,384**	1,435	1,403
National Accounts	**1,123**	**566**	1,316	579
Total Commercial Core	**5,069**	**4,279**	5,114	4,177
Commercial Other	**23**	**23**	118	62
Total Commercial	**$5,092**	**$4,302**	$5,232	$4,239

Gross and net written premiums in the second quarter of 2006 increased 4% and 8%, respectively, compared with the same period of 2005. In Commercial Accounts, net written premiums in the second quarter of 2006 were $128 million, or 12%, higher than in the same period of 2005, impacted by higher business retention rates for casualty and non-catastrophe exposed property coverages, strong renewal price increases for Southeastern U.S. catastrophe-prone exposures and the transfer of small business insurance programs from Select Accounts to Commercial

Accounts. New business volume was down slightly when compared with the second quarter of 2005. Net written premiums through the first six months of 2006 in Commercial Accounts grew 6% over the same period of 2005. In the Select Accounts market, net written premiums in the second quarter and first six months of 2006 declined 2% and 1%, respectively, from the same periods of 2005. The declines were primarily due to a reduction in premium volume from small business insurance programs, the majority of which was transferred to the Commercial Accounts market as noted previously. Business retention rates and new business volume increased over the second quarter of 2005, while renewal price changes were down from the same period of 2005.

In National Accounts, net written premiums in the second quarter of 2006 increased by $60 million, or 25%, over the same period of 2005, primarily reflecting changes in the reinsurance program for the Company' s Discover Re operation which resulted in a lower amount of ceded written premiums. Through the first six months of 2006, net written premiums in National Accounts declined by $13 million from the same 2005 period, as the second quarter increase was more than offset by several factors, including a reduction in premiums related to favorable loss experience on retrospectively rated policies, changes in the effective dates of certain large account renewals, a reduction in assumed premiums from involuntary auto residual market pools and lower new business volume.

In Commercial Other, the decline in 2006 second-quarter and year-to-date premium volume compared with the same periods of 2005 reflected the intentional non-renewal of business in the runoff operations comprising this category.

Specialty

The Specialty segment provides a full range of standard and specialized insurance coverages and services through dedicated underwriting, claims handling and risk management groups. The segment comprises two primary groups: Domestic Specialty and International Specialty.

- *Domestic Specialty* includes several marketing and underwriting groups, each of which possesses customer expertise and offers products and services to address its respective customers' specific needs. These groups include Financial and Professional Services, Bond, Construction, Technology, Ocean Marine, Oil and Gas, Public Sector, Underwriting Facilities and Excess Casualty (previously known as Umbrella/Excess & Surplus Group).

- *International Specialty* includes coverages marketed and underwritten to several specialty customer groups within the United Kingdom, Canada and the Republic of Ireland and the Company' s participation in Lloyd' s.

In November 2005, the Company sold its Personal Catastrophe Risk operation, which had been included in the Specialty segment. In accordance with terms of the agreement, the Company retained responsibility for the pre-sale loss and loss adjustment expense reserves related to this business and remains responsible for any changes in estimates in those reserves through a quota-share reinsurance agreement. The impact of this transaction was not material to the Company' s ongoing operations.

Results of the Company' s Specialty segment were as follows:

(in millions)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Revenues:				
Earned premiums	**$ 1,456**	$ 1,449	**$ 2,857**	$ 2,905
Net investment income	**227**	173	**449**	343
Fee income	**11**	9	**22**	17
Other revenues	**8**	8	**14**	20
Total revenues	**$ 1,702**	$ 1,639	**$ 3,342**	$ 3,285
Total claims and expenses	**$ 1,306**	$ 1,329	**$ 2,591**	$ 2,738

Operating income	**$ 287**	$ 221	**$ 544**	$ 394
Loss and loss adjustment expense ratio	**55.5%**	59.9%	**56.6%**	62.1%
Underwriting expense ratio	**33.1**	31.0	**33.0**	31.5
GAAP combined ratio	**88.6%**	90.9%	**89.6%**	93.6%

Overview

Operating income of $287 million in the second quarter of 2006 improved by $66 million, or 30%, over the same period of 2005. Through the first six months of 2006, operating income of $544 million was $150 million higher than in the same period of 2005. The increases in both periods were driven by higher net investment income and net favorable prior year reserve development, which were partially offset by an increase in general and administrative expenses and acquisition costs. Through the first six months of 2006, no catastrophe losses were incurred in the Specialty segment, whereas the same period of 2005 included pretax catastrophe losses of $19 million. Operating results in 2006 also benefited from continued favorable loss experience in the majority of underwriting groups comprising this segment.

Earned Premiums

Earned premiums in the second quarter of 2006 grew less than 1% over the second quarter of 2005. Growth in the Bond, Financial and Professional Services, and Oil and Gas operations was largely offset by a decline in Construction and the impact of the Company' s sale of its Personal Catastrophe Risk operation in November 2005. Earned premiums in the second quarter of 2005 included $32 million from the Personal Catastrophe Risk operation. For the six months ended June 30, 2005, earned premiums included $63 million from the Personal Catastrophe Risk operation and $32 million from classes of personal lines business at Lloyd' s that were sold in the first quarter of 2005.

Net Investment Income

Refer to the "Net Investment Income" section of the "Revenues" discussion herein for a description of the factors contributing to the increase in the Company' s net investment income in 2006.

Claims and Expenses

Claims and claims adjustment expenses in the second quarter of 2006 totaled $817 million, down $58 million, or 7%, from the same period of 2005. The 2006 total reflected $39 million of net favorable prior year reserve development, whereas the 2005 total included $16 million of net unfavorable prior year reserve development. The net favorable development in 2006 was primarily related to the Company' s International operations. No catastrophe losses were incurred in the second quarters of 2006 or 2005. Through the first six months of 2006, claims and claims adjustment expenses of $1.63 billion were $178 million, or 10%, lower than the 2005 six-month total of $1.81 billion. The 2006 total reflected $48 million of net favorable prior year reserve development, compared with net unfavorable prior year reserve development of $69 million in the same 2005 period that was primarily driven by loss development on hurricanes that occurred in 2004. The decline in claims and claims adjustment expenses in the first half of 2006 also reflected the impact of the Company' s sale of its Personal Catastrophe Risk operation in November 2005 and the continuation of favorable loss experience.

General and administrative expenses in the second quarter and first six months of 2006 were $20 million and $25 million higher than in the respective periods of 2005. The increase in the second quarter of 2006 primarily reflected a provision for legal expenses related to investigations of various business practices by certain governmental agencies, costs associated with the Company' s recently launched national advertising campaign and additional expenditures related to information systems to support business growth and product development.

GAAP Combined Ratio

The loss and loss adjustment expense ratio in the second quarter of 2006 improved 4.4 points compared with the same period of 2005. The second quarter 2006 ratio included a 2.7 point benefit from net favorable prior year reserve development, whereas the 2005 second quarter ratio included a 1.1 point impact from net unfavorable prior year reserve development. The improvement in 2006 also reflected continued favorable loss experience. There were no catastrophe losses in the second quarters of 2006 or 2005. The 2.1 point increase in the second quarter 2006 underwriting expense ratio compared with the 2005 second quarter ratio primarily reflected the increase in expenses described above. Through the first six months of 2006, the loss and loss adjustment expense ratio included a 1.7 point benefit of net favorable prior year reserve development, compared with a 2.4 negative impact from net unfavorable prior year reserve development in the same period of 2005. In addition, the 2006 year-to-date ratio included no catastrophe losses, whereas the 2005 six-month ratio included a 0.6 point impact from catastrophes.

Written Premiums

Specialty' s gross and net written premiums by market were as follows:

	Three Months Ended June 30,			
	2006		2005	
(in millions)	Gross	Net	Gross	Net
Construction	**$ 245**	**$ 251**	$ 256	$ 261
Bond	**425**	**412**	401	368
Financial and Professional Services	**249**	**248**	234	232
Other	**471**	**391**	512	388
Total Domestic Specialty	**1,390**	**1,302**	1,403	1,249
International Specialty	**394**	**355**	355	296
Total Specialty	**$1,784**	**$1,657**	$1,758	$1,545

	Six Months Ended June 30,			
	2006		2005	
(in millions)	Gross	Net	Gross	Net
Construction	**$ 507**	**$ 503**	$ 521	$ 511
Bond	**832**	**616**	772	531
Financial and Professional Services	**463**	**337**	434	352
Other	**913**	**730**	993	745
Total Domestic Specialty	**2,715**	**2,186**	2,720	2,139
International Specialty	**739**	**588**	729	560
Total Specialty	**$3,454**	**$2,774**	$3,449	$2,699

The Specialty segment' s net written premiums in the second quarter of 2006 grew $112 million, or 7%, over the same period of 2005. In Domestic Specialty operations, net written premium growth was concentrated in the Bond operation, driven by increases in construction surety business and reductions in ceded premiums due to favorable loss experience. In addition, increases in Financial and Professional Services and Oil and Gas business volume more than offset declines in Construction volume and the impact of the sale of the Personal Catastrophe Risk operation. In Domestic Specialty in total, business retention rates in the second quarter of 2006 increased over the same 2005 period. Renewal price changes remained positive and were level with the second quarter of 2005, and new business volume in the second quarter of 2006 was down slightly from the same 2005 period (excluding the Personal Catastrophe Risk operation). In International

Specialty, net written premiums in the second quarter of 2006 grew 20% over the same period of 2005, primarily driven by renewal price increases for Southeastern U.S. catastrophe-prone exposures in the Company' s operations at Lloyd' s, and strong growth in Canadian operations. Business retention rates in International Specialty (excluding the Lloyd' s operations) in the second quarter of 2006 were level with the same period of 2005, and new business volume increased modestly over the second quarter of 2005. Through the first six months of 2006, net written premiums grew $75 million, or 3%, over the same 2005 period, primarily due to the same factors driving premium growth in the second quarter, partially offset by premium declines experienced in Financial and Professional Services and International Specialty in the first quarter of the year.

Personal

The Personal segment writes virtually all types of property and casualty insurance covering personal risks. The primary coverages in Personal are automobile and homeowners insurance sold to individuals. These products are distributed through independent agents, sponsoring organizations such as employee and affinity groups, and joint marketing arrangements with other insurers.

Automobile policies provide coverage for liability to others for both bodily injury and property damage, and for physical damage to an insured' s own vehicle from collision and various other perils. In addition, many states require policies to provide first-party personal injury protection, frequently referred to as no-fault coverage.

Homeowners policies are available for dwellings, condominiums, mobile homes and rental property contents. Protection against losses to dwellings and contents from a wide variety of perils is included in these policies, as well as coverage for liability arising from ownership or occupancy.

Results of the Company' s Personal segment were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2006**	**2005**	**2006**	**2005**
Revenues:				
Earned premiums	**$ 1,627**	$ 1,496	**$ 3,187**	$ 2,955
Net investment income	**137**	116	**271**	225
Other revenues	**22**	23	**46**	47
Total revenues	**$ 1,786**	$ 1,635	**$ 3,504**	$ 3,227
Total claims and expenses	**$ 1,491**	$ 1,244	**$ 2,863**	$ 2,416
Operating income	**$ 203**	$ 266	**$ 443**	$ 551
Loss and loss adjustment expense ratio	**62.2%**	55.4%	**60.5%**	53.9%
Underwriting expense ratio	**27.9**	26.2	**27.8**	26.3
GAAP combined ratio	**90.1%**	81.6%	**88.3%**	80.2%

Overview

Operating income of $203 million and $443 million in the second quarter and first six months of 2006, respectively, declined $63 million and $108 million from the respective periods of 2005. The decline in operating income in 2006 was primarily driven by higher catastrophe losses, lower net favorable prior year reserve development and an increase in general and administrative expenses. These factors were partially offset by an increase in net investment income and strong premium growth.

Earned Premiums

Earned premiums in the second quarter and first six months of 2006 grew 9% and 8%, respectively, over the same periods of 2005, primarily due to continued strong business retention rates, new business volume and renewal price increases over the preceding twelve months.

Net Investment Income

Refer to the "Net Investment Income" section of the "Revenues" discussion herein for a description of the factors contributing to the increase in the Company' s net investment income in 2006.

Claims and Expenses

Claims and claim adjustment expenses in the second quarter and first six months of 2006 totaled $1.01 billion and $1.93 billion, respectively, increases of 22% and 21% over the respective periods of 2005. The increases in 2006 reflected the growth in earned premium volume, an increase in catastrophe losses and a reduction of net favorable prior year reserve development. The 2006 totals reflected $67 million of catastrophe losses incurred in the second quarter resulting from three wind, hail and rainstorm events in Texas, the Southeast and the Northeast. Catastrophe losses in the second quarter and first six months of 2005 totaled $11 million and $23 million, respectively. Net favorable prior year reserve development in the second quarter and first six months of 2006 totaled $58 million and $88 million, respectively, compared with net favorable prior year reserve development of $81 million and $195 million in the respective periods of 2005. The favorable development in both years was primarily driven by better than expected auto bodily injury loss experience. In addition, in 2005, a decline in the frequency of non-catastrophe losses in the Homeowners and Other line of business contributed to the year-to-date net favorable prior year reserve development.

General and administrative expenses of $197 million and $380 million in the second quarter and first six months of 2006, respectively, increased 22% and 20% over the respective periods of 2005, primarily reflecting a provision for legal expenses related to investigations of various business practices by certain governmental agencies, costs associated with the Company' s recently launched national advertising campaign, and continuing investments to support business growth and product development.

GAAP Combined Ratio

The loss and loss adjustment expense ratio of 62.2 for the second quarter of 2006 was 6.8 points higher than the comparable 2005 ratio of 55.4. The 2006 ratio included a 4.1 point impact of catastrophe losses and a 3.6 point benefit from net favorable prior year reserve development, whereas the 2005 second quarter ratio included a 0.7 point impact of catastrophe losses and a 5.4 point benefit from net favorable prior year reserve development. The second quarter 2006 loss and loss adjustment expense ratio also reflected the cost of investments in strategic claim initiatives. Through the first six months of 2006, the loss and loss adjustment expense ratio of 60.5 was 6.6 points higher than the 2005 six-month ratio, primarily reflecting the impact of higher catastrophe losses, lower levels of net favorable prior year reserve development in 2006 and investments in strategic claim initiatives. The underwriting expense ratios in the second quarter and first six months of 2006 were 1.7 points and 1.5 points higher than the respective periods of 2005, primarily due to the increase in expenses described above.

Written Premiums

Personal' s gross and net written premiums by product line were as follows:

	Three Months Ended June 30,			
	2006		2005	
(in millions)	**Gross**	**Net**	**Gross**	**Net**
Automobile	**$960**	**$951**	$888	$878
Homeowners and Other	**880**	**830**	782	746

Total Personal	**$1,840**	**$1,781**	$1,670	$1,624

	Six Months Ended June 30,			
	2006		2005	
(in millions)	Gross	Net	Gross	Net
Automobile	**$1,902**	**$1,883**	$1,758	$1,732
Homeowners and Other	**1,559**	**1,470**	1,390	1,326
Total Personal	**$3,461**	**$3,353**	$3,148	$3,058

Gross and net written premiums in the second quarter and first six months of 2006 increased 10% over the respective periods of 2005. In the Automobile line of business, premium growth was driven by a significant increase in new business volume, which reflected the continued marketplace acceptance of the Company' s multivariate pricing product that had been introduced in 33 states and the District of Columbia by the end of the second quarter. Renewal price changes in the Automobile line of business in the second quarter and first six months of 2006 remained positive, but declined when compared with the same periods of 2005. In the Homeowners and Other line of business, written premium growth in 2006 was driven by continued renewal price increases and strong new business volume. Business retention rates in both the Automobile and Homeowners and Other lines of business in the second quarter and first six months of 2006 remained strong and were consistent with the same periods of 2005.

The Personal segment had approximately 6.9 million and 6.4 million policies in force at June 30, 2006 and 2005, respectively.

Interest Expense and Other

	Three Months Ended June 30,			
	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2006	2005	2006	2005
Net loss	**$ (48)**	**$ (51)**	**$ (69)**	$ (98)

The net loss for Interest Expense and Other in the second quarter of 2006 was $3 million less than the loss in the same period of 2005, as an increase in interest expense in 2006 related to new debt issuances was more than offset by the absence of expenses associated with the amortization of the discount on forward contracts related to the Company' s divestiture of Nuveen Investments, and the favorable resolution of various prior year state tax matters. The $29 million decline in net loss for Interest and Other through the first six months of 2006 compared with the same period of 2005 primarily reflected the favorable resolution of various prior year federal and state tax matters in 2006 and the absence of the Nuveen-related expenses mentioned previously.

ASBESTOS CLAIMS AND LITIGATION

The Company believes that the property and casualty insurance industry has suffered from court decisions and other trends that have attempted to expand insurance coverage for asbestos claims far beyond the intent of insurers and policyholders. As a result, the Company continues to experience a significant number of asbestos claims being tendered to the Company by the Company' s policyholders (which includes others seeking coverage under a policy), including claims against the Company' s policyholders by individuals who do not appear to be impaired by asbestos exposure. Factors underlying these claim filings include intensive advertising by lawyers seeking asbestos claimants, the focus by plaintiffs on new and previously peripheral defendants and entities seeking bankruptcy protection as a result of asbestos-related liabilities. In addition to contributing to the overall number of claims, bankruptcy proceedings may increase the volatility of asbestos-related losses by initially delaying the reporting of claims and later by significantly accelerating and increasing loss payments by insurers, including the Company. Bankruptcy proceedings are also causing increased settlement demands against those policyholders who are not in bankruptcy but that remain in the tort system. Recently, in many jurisdictions, those who allege very serious injury and who can present credible medical evidence of their injuries are receiving priority trial settings in the courts, while those who have not shown any credible disease manifestation have their hearing dates delayed or placed on an inactive docket. This trend, along with the focus on new and previously peripheral defendants, contributes to the loss and loss expense payments experienced by the Company. In addition, the Company' s asbestos-related loss and loss expense experience is impacted by the exhaustion or unavailability due to insolvency of other insurance potentially available to policyholders along with the insolvency or bankruptcy of other defendants. The Company is currently involved in coverage litigation concerning a number of policyholders who have filed for bankruptcy, including, among others, ACandS, Inc., who in some instances have asserted that all or a portion of their asbestos-related claims are not subject to aggregate limits on coverage as described generally in the next paragraph. (Also see "Part II − Item 1, Legal Proceedings"). These trends are expected to continue in the near term. As a result of the factors described above, there is a high degree of uncertainty with respect to future exposure from asbestos claims.

In some instances, policyholders continue to assert that their claims for asbestos-related insurance are not subject to aggregate limits on coverage and that each individual bodily injury claim should be treated as a separate occurrence under the policy. It is difficult to predict whether these policyholders will be successful on both issues or whether the Company will be successful in asserting additional defenses. To the extent both issues are resolved in policyholders' favor and other additional Company defenses are not successful, the Company' s coverage obligations under the policies at issue would be materially increased and bounded only by the applicable per-occurrence limits and the number of asbestos bodily injury claims against the policyholders. Accordingly, it is difficult to predict the ultimate cost of the claims for coverage not subject to aggregate limits.

Many coverage disputes with policyholders are only resolved through settlement agreements. Because many policyholders make exaggerated demands, it is difficult to predict the outcome of settlement negotiations. Settlements involving bankrupt policyholders may include extensive releases which are favorable to the Company but which could result in settlements for larger amounts than originally anticipated. As in the past, the Company will continue to pursue settlement opportunities.

In addition, proceedings have been launched directly against insurers, including the Company, challenging insurers' conduct in respect of asbestos claims, and, as discussed below, claims by individuals seeking damages arising from alleged asbestos-related bodily injuries. The Company anticipates the filing of other direct actions against insurers, including the Company, in the future. It is difficult to predict the outcome of these proceedings, including whether the plaintiffs will be able to sustain these actions against insurers based on novel legal theories of liability. The Company believes it has meritorious defenses to these claims and has received favorable rulings in certain jurisdictions. Additionally, TPC has entered into settlement agreements, which have been approved by the court in connection with the proceedings initiated by TPC in the Johns Manville bankruptcy court. On March 29, 2006, the United States District Court for the Southern District of New York substantially affirmed the bankruptcy court' s orders, while vacating that portion of the bankruptcy court' s orders which required all future direct actions against TPC to first be approved by the bankruptcy court before proceeding in state or federal court. Certain parties to the proceeding have filed appeals of the District Court' s affirmance. No briefing schedule has been set. If the rulings of the district court are affirmed through the appellate process, then TPC will have resolved substantially all of the pending direct action claims against it. (Also, see "Part II − Item 1, Legal Proceedings").

Because each policyholder presents different liability and coverage issues, the Company generally reviews the exposure presented by each policyholder on a policyholder-by-policyholder basis. In the course of this review, the Company considers, among other factors: available insurance coverage, including the role of any umbrella or excess insurance the Company has issued to the policyholder; limits and deductibles; an analysis of each policyholder' s potential liability; the jurisdictions involved; past and anticipated future claim activity and loss development on pending claims; past settlement values of similar claims; allocated claim adjustment expense; potential role of other insurance; the role, if any, of non-asbestos claims or potential non-asbestos claims in any resolution process; and applicable coverage defenses or determinations, if any, including the determination as to whether or not an asbestos claim is a products/completed operation claim subject to an aggregate limit and the available coverage, if any, for that claim. When an estimate of the gross ultimate exposure for indemnity and related claim adjustment expense is determined for a policyholder, the Company calculates, by each policy year, a ceded reinsurance projection based on any applicable facultative and treaty reinsurance, past ceded experience and reinsurance collections. Conventional actuarial methods are not utilized to establish asbestos reserves. The Company' s evaluations have not resulted in any data from which a meaningful average asbestos defense or indemnity payment may be determined.

The Company also compares its historical gross and net loss and expense paid experience, year-by-year, to assess any emerging trends, fluctuations, or characteristics suggested by the aggregate paid activity. Net asbestos losses and expenses paid in the first six months of 2006 were $242 million, compared with $191 million in the same period of 2005. Approximately 58% in the first six months of 2006 and 38% in the first six months of 2005 of total net paid losses related to policyholders with whom the Company previously entered into settlement agreements limiting the Company' s liability. At June 30, 2006, net asbestos reserves totaled $4.12 billion, compared with $3.74 billion at June 30, 2005. The increase was primarily due to an $830 million charge to strengthen reserves in the fourth quarter of 2005, partially offset by loss payments made during the twelve-month period ended June 30, 2006.

The following table displays activity for asbestos losses and loss expenses and reserves:

(at and for the six months ended June 30, in millions)	2006	2005
Beginning reserves:		
Direct	**$ 5,103**	$ 4,775
Ceded	**(739)**	(843)
Net	**4,364**	3,932
Incurred losses and loss expenses:		
Direct	–	–
Ceded	–	–
Net	–	–
Accretion of discount:		
Direct	–	1
Ceded	–	–
Net	–	1
Losses paid:		
Direct	**265**	249
Ceded	**(23)**	(58)
Net	**242**	191
Ending reserves:		
Direct	**4,838**	4,527
Ceded	**(716)**	(785)
Net	**$ 4,122**	$ 3,742

See "–Uncertainty Regarding Adequacy of Asbestos and Environmental Reserves."

ENVIRONMENTAL CLAIMS AND LITIGATION

The Company continues to receive claims from policyholders who allege that they are liable for injury or damage arising out of their alleged disposition of toxic substances. Mostly, these claims are due to various legislative as well as regulatory efforts aimed at environmental remediation. For instance, the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), enacted in 1980 and later modified, enables private parties as well as federal and state governments to take action with respect to releases and threatened releases of hazardous substances. This federal statute permits the recovery of response costs from some liable parties and may require liable parties to undertake their own remedial action. Liability under CERCLA may be joint and several with other responsible parties.

The Company has been, and continues to be, involved in litigation involving insurance coverage issues pertaining to environmental claims. The Company believes that some court decisions have interpreted the insurance coverage to be broader than the original intent of the insurers and policyholders. These decisions often pertain to insurance policies that were issued by the Company prior to the mid-1970s. These decisions continue to be inconsistent and vary from jurisdiction to jurisdiction. Environmental claims when submitted rarely indicate the monetary amount being sought by the claimant from the policyholder, and the Company does not keep track of the monetary amount being sought in those few claims which indicate a monetary amount.

At June 30, 2006, approximately 78% of the net environmental reserve (approximately $289 million) was carried in a bulk reserve and included unresolved environmental claims, incurred but not reported environmental claims and the anticipated cost of coverage litigation disputes relating to these claims. The bulk reserve the Company carries is established and adjusted based upon the aggregate volume of in-process environmental claims and the Company' s experience in resolving those claims. The balance, approximately 22% of the net environmental reserve (approximately $83 million), consists of case reserves.

The resolution of environmental exposures by the Company generally occurs by settlement on a policyholder-by-policyholder basis as opposed to a claim-by-claim basis. Generally, the Company strives to extinguish any obligations it may have under any policy issued to the policyholder for past, present and future environmental liabilities and extinguish any pending coverage litigation dispute with the policyholder. This form of settlement is commonly referred to as a "buy-back" of policies for future environmental liability. In addition, many of the agreements have also extinguished any insurance obligation which the Company may have for other claims, including but not limited to asbestos and other cumulative injury claims. The Company and its policyholders may also agree to settlements which extinguish any future liability arising from known specified sites or claims. Provisions of these agreements also include appropriate indemnities and hold harmless provisions to protect the Company. The Company' s general purpose in executing these agreements is to reduce the Company' s potential environmental exposure and eliminate the risks presented by coverage litigation with the policyholder and related costs.

In establishing environmental reserves, the Company evaluates the exposure presented by each policyholder and the anticipated cost of resolution, if any. In the course of this analysis, the Company considers the probable liability, available coverage, relevant judicial interpretations and historical value of similar exposures. In addition, the Company considers the many variables presented, such as the nature of the alleged activities of the policyholder at each site; the allegations of environmental harm at each site; the number of sites; the total number of potentially responsible parties at each site; the nature of environmental harm and the corresponding remedy at each site; the nature of government enforcement activities at each site; the ownership and general use of each site; the overall nature of the insurance relationship between the Company and the policyholder, including the role of any umbrella or excess insurance the Company has issued to the policyholder; the involvement of other insurers; the potential for other available coverage, including the number of years of coverage; the role, if any, of non-environmental claims or potential non-environmental claims, in any resolution process; and the applicable law in each jurisdiction. Conventional actuarial techniques are not used to estimate these reserves.

In its review of environmental reserves, the Company considers: the adequacy of reserves for past settlements; changing judicial and legislative trends; the potential for policyholders with smaller exposures to be named in new clean-up action for both on- and off-site waste disposal activities; the potential for adverse development; the potential for additional new claims beyond previous expectations; and the potential higher costs for new settlements.

The duration of the Company' s investigation and review of these claims and the extent of time necessary to determine an appropriate estimate, if any, of the value of the claim to the Company vary significantly and are dependent upon a number of factors. These factors include, but are not limited to, the cooperation of the policyholder in providing claim information, the pace of underlying litigation or claim processes, the pace of coverage litigation between the policyholder and the Company and the willingness of the policyholder and the Company to negotiate, if appropriate, a resolution of any dispute pertaining to these claims. Because these factors vary from claim-to-claim and policyholder-by-policyholder, the Company cannot provide a meaningful average of the duration of an environmental claim. However, based upon the Company' s experience in resolving these claims, the duration may vary from months to several years.

The Company' s review of policyholders tendering claims for the first time has indicated that they are lower in severity. These policyholders generally present smaller exposures, have fewer sites and are lower tier defendants. Further, regulatory agencies are utilizing risk-based analysis and more efficient clean-up technologies. However, the Company has experienced an increase in the anticipated settlement amounts of certain matters as well as an increase in loss adjustment expenses. There also have been judicial interpretations that, in some cases, have been unfavorable to the industry and the Company.

Gross paid losses in the first six months of 2006 and 2005 were $115 million and $178 million, respectively. TPC made a significant settlement with one policyholder in 2005. TPC executed an agreement with this policyholder which resolved all past, present and future hazardous waste and pollution property damage claims, and all related past and pending bodily injury claims. In addition, TPC and this policyholder entered into a coverage-in-place agreement which addressed the handling and resolution of all future hazardous waste and pollution bodily injury claims. Under the coverage-in-place agreement, TPC has no defense obligation, and there is an overall cap with respect to any indemnity obligation that might be owed. The first two payments related to this settlement were made during 2005 and the final payment was made in the first quarter of 2006.

The following table displays activity for environmental losses and loss expenses and reserves:

(at and for the six months ended June 30, in millions)	2006	2005
Beginning reserves:		
Direct	**$ 494**	$ 725
Ceded	**(69)**	(84)
Net	**425**	641
Incurred losses and loss expenses:		
Direct	**–**	–
Ceded	**–**	–
Net	**–**	–
Losses paid:		
Direct	**115**	178
Ceded	**(62)**	(5)
Net	**53**	173
Ending reserves:		
Direct	**379**	547
Ceded	**(7)**	(79)

Net	**$ 372**	$ 468

UNCERTAINTY REGARDING ADEQUACY OF ASBESTOS AND ENVIRONMENTAL RESERVES

As a result of the processes and procedures described above, management believes that the reserves carried for asbestos and environmental claims at June 30, 2006 are appropriately established based upon known facts, current law and management' s judgment. However, the uncertainties surrounding the final resolution of these claims continue, and it is difficult to determine the ultimate exposure for asbestos and environmental claims and related litigation. As a result, these reserves are subject to revision as new information becomes available and as claims develop. The continuing uncertainties include, without limitation, the risks and lack of predictability inherent in complex litigation, any impact from the bankruptcy protection sought by various asbestos producers and other asbestos defendants, a further increase or decrease in asbestos and environmental claims beyond that which is anticipated, the role of any umbrella or excess policies the Company has issued, the resolution or adjudication of some disputes pertaining to the amount of available coverage for asbestos and environmental claims in a manner inconsistent with the Company' s previous assessment of these claims, the number and outcome of direct actions against the Company and future developments pertaining to the Company' s ability to recover reinsurance for asbestos and environmental claims. In addition, the Company' s asbestos-related claims and claim adjustment expense experience has been impacted by the exhaustion or unavailability due to insolvency of other insurance sources potentially available to policyholders along with the insolvency or bankruptcy of other defendants. It is also not possible to predict changes in the legal and legislative environment and their impact on the future development of asbestos and environmental claims. This development will be affected by future court decisions and interpretations, as well as changes in applicable legislation, including legislation related to asbestos reform. It is also difficult to predict the ultimate outcome of large coverage disputes until settlement negotiations near completion and significant legal questions are resolved or, failing settlement, until the dispute is adjudicated. This is particularly the case with policyholders in bankruptcy where negotiations often involve a large number of claimants and other parties and require court approval to be effective. As part of its continuing analysis of asbestos reserves, which includes an annual ground-up review of asbestos policyholders, the Company continues to study the implications of these and other developments. The Company completed its most recent annual ground-up review during the fourth quarter of 2005. Also see "Part II – Item 1, Legal Proceedings."

Because of the uncertainties set forth above, additional liabilities may arise for amounts in excess of the current asbestos and environmental reserves. In addition, the Company' s estimate of 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 operating results and financial condition in future periods.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity is a measure of a company' s ability to generate sufficient cash flows to meet the short- and long-term cash requirements of its business operations. The liquidity requirements of the Company' s business have been met primarily by funds generated from operations, asset maturities and income received on investments. Cash provided from these sources is used primarily for claims and claim adjustment expense payments and operating expenses. The timing and amount of catastrophe claims, including terrorism, are inherently unpredictable. Such claims increase liquidity requirements. The timing and amount of reinsurance recoveries may be affected by reinsurer solvency and reinsurance coverage disputes. Additionally, the volatility of asbestos-related claim payments, as well as potential judgments and settlements arising out of litigation, may also result in increased liquidity requirements. It is the opinion of the Company' s management that the Company' s future liquidity needs will be adequately met from all of the above sources.

Net cash flows provided by operating activities of continuing operations in the first six months of 2006 and 2005 totaled $1.41 billion and $1.73 billion, respectively. The decline in 2006 primarily reflected the impact of higher claim and claim adjustment expense payments in the first quarter of the year related to catastrophe losses incurred in the third and fourth quarters of 2005. Net cash flows from operating activities in the second quarter of 2006 totaled $849 million, compared with $703 million in the same period of 2005, primarily reflecting the impact of a decline in tax payments, lower runoff claim payments and an increase in net investment income.

Net cash flows used in investing activities of continuing operations in the first six months of 2006 and 2005 totaled $1.73 billion and $2.38 billion, respectively. Fixed maturity securities accounted for the majority of investment purchases in both years.

The majority of funds available for investment are deployed in a widely diversified portfolio of high quality, liquid intermediate-term taxable U.S. government, corporate and mortgage backed bonds and tax-exempt U.S. municipal bonds. The Company closely monitors the duration of its fixed maturity investments, and investment purchases and sales are executed with the objective of having adequate funds available to satisfy the Company' s insurance and debt obligations. The Company' s management of the duration of the fixed income investment portfolio generally produces a duration that exceeds the duration of the Company' s net insurance liabilities. As the Company' s investment strategy focuses on asset and liability durations, and not specific cash flows, asset sales may be required to satisfy obligations and/or rebalance asset portfolios. The average duration of fixed maturities and short-term securities was 4.2 years at June 30, 2006, compared with 3.9 years at December 31, 2005.

The Company also invests much smaller amounts in equity securities, venture capital and real estate. These investment classes have the potential for higher returns but also involve varying degrees of risk, including less stable rates of return and less liquidity.

The primary goals of the Company' s asset liability management process are to satisfy the insurance liabilities, manage the interest rate risk embedded in those insurance liabilities and maintain sufficient liquidity to cover fluctuations in projected liability cash flows. Generally, the expected principal and interest payments produced by the Company' s fixed income portfolio adequately fund the estimated runoff of the Company' s insurance reserves. Although this is not an exact cash flow match in each period, the substantial degree by which the market value of the fixed income portfolio exceeds the present value of the net insurance liabilities, plus the positive cash flow from newly sold policies and the large amount of high quality liquid bonds provides assurance of the Company' s ability to fund the payment of claims without having to sell illiquid assets or access credit facilities.

At June 30, 2006, total cash, short-term invested assets and other readily marketable securities aggregating $2.73 billion were held at the holding company level, including approximately $786 million of net proceeds from the issuance of debt in June 2006, which the Company intends to use to prefund maturing and redeemable debt (described in more detail in the following paragraph). The assets held at the holding company, combined with other sources of funds available, primarily additional dividends from operating subsidiaries, are sufficient to meet its liquidity requirements. These liquidity requirements primarily include shareholder dividends and debt service.

Net cash flows provided by financing activities of continuing operations in the first six months of 2006 totaled $257 million, compared with net cash flows used by financing activities of $741 million in the same 2005 period. The 2006 total reflected the issuance of debt, partially offset by dividends to shareholders and common share repurchases. In June 2006, the Company issued $400 million aggregate principal amount of 6.25% senior unsecured notes due June 20, 2016 and $400 million aggregate principal amount of 6.75% senior unsecured notes due June 20, 2036. The notes were issued at a discount, resulting in effective interest rates of 6.30% and 6.86%, respectively. Net proceeds from the issuances (after original issue discount and expenses) totaled approximately $786 million, which the Company intends to apply to the redemption of approximately $593 million of 7.60% subordinated debentures that are redeemable on November 13, 2006, $150 million of 6.75% senior notes maturing on November 15, 2006 and $56 million of medium-term notes with a weighted average interest rate of 7.00% maturing at various dates during the second half of 2006. If however, the Company were to incur any material adverse development as a result of, among other things, one or more significant, natural or man-made catastrophes prior to the application of all of the proceeds as described above, the Company could decide to defer, in whole or in part, the redemption of the subordinated debentures and use those amounts instead for working capital. Net cash used in financing activities in 2005 was driven by repayment of debt and dividends to shareholders.

Dividends paid to shareholders totaled $343 million and $307 million in the first six months of 2006 and 2005, respectively. On August 3, 2006, the Company' s Board of Directors declared a quarterly dividend of $0.26 per share. The dividend is payable September 29, 2006 to shareholders of record on September 8, 2006. The declaration and payment of future dividends to holders of the Company' s common stock will be at the discretion of the Company' s Board of Directors and will depend upon many factors, including the Company' s financial condition, earnings, capital requirements of the Company' s operating subsidiaries, legal requirements, regulatory constraints and other factors as the Board of Directors deems relevant. Dividends would be paid by the Company only if declared by its Board of Directors out of funds legally available, subject to any other restrictions that may be applicable to the Company.

On May 2, 2006, the Company' s Board of Directors authorized a program to repurchase up to $2 billion of shares of the Company' s common stock. Under this program, 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. This program does not have a stated expiration date; however, the Company anticipates that it will be substantially completed by early 2008. The timing and actual number of shares to be repurchased in the future will depend on a variety of factors, including corporate and regulatory requirements, price, catastrophe losses and other market conditions. The repurchases are being financed with internally-generated funds. During the three months ended June 30, 2006, the Company repurchased 5,638,335 shares under the program for a total cost of approximately $250 million, or an average of $44.37 per share.

The Company' s cash flows in the second quarter of 2005 included $1.87 billion of pretax proceeds (after underwriting fees and transaction costs) from the divestiture of a significant portion of its equity interest in Nuveen Investments.

The Company has the option to defer interest payments on its convertible junior subordinated notes for a period not exceeding 20 consecutive quarterly interest periods. If the Company elects to defer interest payments on the notes, it will not be permitted, with limited exceptions, to pay dividends on its common stock during a deferral period.

Upon completion of the merger of SPC and TPC on April 1, 2004, the Company acquired all obligations related to SPC' s outstanding debt, which had a carrying value of $3.68 billion at the time of the merger. In accordance with purchase accounting, the carrying value of the SPC debt acquired was adjusted to market value as of April 1, 2004 using the effective interest rate method, which resulted in a $301 million adjustment to increase the amount of the Company' s consolidated debt outstanding. That fair value adjustment is being amortized over the remaining life of the respective debt instruments acquired. That amortization, which totaled $17 million and $34 million in the first six months of 2006 and 2005, respectively, reduced reported interest expense.

RATINGS

Ratings are an important factor in setting the Company' s competitive position in the insurance marketplace. The Company receives ratings from the following major rating agencies: A.M. Best Company (A.M. Best), Fitch Ratings (Fitch), Moody' s Investors Service (Moody' s) and Standard & Poor' s Corp. (S&P). Rating agencies typically issue two types of ratings: claims-paying (or financial strength) ratings which assess an insurer' s ability to meet its financial obligations to policyholders and debt ratings which assess a company' s prospects for repaying its debts and assist lenders in setting interest rates and terms for a company' s short and long-term borrowing needs. Agency ratings are not a recommendation to buy, sell or hold any security and they may be revised or withdrawn at any time by the rating organization. Each agency' s rating should be evaluated independently of any other agency' s rating. The system and the number of rating categories can vary widely from rating agency to rating agency. Customers usually focus on claims-paying ratings, while creditors focus on debt ratings. Investors use both to evaluate a company' s overall financial strength. The ratings issued on the Company or its subsidiaries by any of these agencies are announced publicly and are available on the Company' s website and from the agencies.

The Company' s insurance operations could be negatively impacted by a downgrade in one or more of the Company' s financial strength ratings. If this were to occur, there could be a reduced demand for certain products in certain markets. Additionally, the Company' s ability to access the capital markets could be impacted and higher borrowing costs may be incurred.

The following rating agency actions were taken with respect to the Company from April 1, 2006 through July 28, 2006:

- On May 3, 2006, Moody' s affirmed the long-term debt ratings (senior unsecured debt at A3) of the Company and the IFS ratings on members of the St. Paul Travelers Inter-Company Pool (Aa3). The outlook for these ratings was changed to stable from negative.

- On May 30, 2006, A.M. Best affirmed the financial strength rating (FSR) of "A+" (Superior) and issuer credit ratings (ICR) of "aa-" of St. Paul Travelers Insurance Companies and its property/casualty members. Concurrently, A.M. Best affirmed the debt ratings of "a-" on senior debt, "bbb+" on subordinated debt, "bbb" on trust preferred securities, "bbb" on preferred stock and "AMB-1" on commercial paper of The St. Paul Travelers Companies, Inc. Additionally, A.M. Best downgraded the FSR to "A-" (Excellent) from "A" (Excellent) and assigned an ICR of "a-" to First Floridian Auto and Home Insurance Company.
- On June 14, 2006, S&P raised its FSR ratings on the St. Paul Travelers Reinsurance Pool to "AA-" from "A+" and raised its counterparty credit rating on The St. Paul Travelers Companies, Inc. to "A-" from "BBB+." The ratings outlooks are stable.
- On June 15, 2006, S&P assigned its "A-" senior debt rating to the $800 million senior unsecured notes due in 2016 and 2036 issued by the Company in June 2006.
- On June 15, 2006, A.M. Best assigned a debt rating of "a-" to the $800 million senior unsecured notes due in 2016 and 2036 issued by the Company in June 2006.
- On June 15, 2006, Fitch announced that it expected to assign an "A-" debt rating to the $800 million senior unsecured notes due in 2016 and 2036 planned to be issued by the Company in June 2006.
- On June 16, 2006, Moody' s assigned an "A3" debt rating to the $800 million senior unsecured notes due in 2016 and 2036 issued by the Company in June 2006, and affirmed the stable outlook it had announced on May 3, 2006.
- On July 28, 2006, Fitch affirmed all ratings of The St. Paul Travelers Companies, Inc., including the issuer default rating of "A," the "A-" ratings on senior unsecured notes and the "BBB+" ratings on subordinated notes and capital securities. In addition, the "AA-" insurer financial strength ratings on members of the St. Paul Travelers Inter-Company Pool was affirmed. The ratings outlooks are stable.

Claims - Paying Ratings

The following table summarizes the current claims-paying (or financial strength) ratings of the St. Paul Travelers Reinsurance Pool, Travelers C&S of America, Northland Pool, Travelers Personal single state companies, Travelers Europe, Discover Reinsurance Company, Afianzadora Insurgentes, S.A., St. Paul Guarantee Insurance Company and St. Paul Travelers Insurance Company Limited by A.M. Best, Moody' s, S&P and Fitch as of August 3, 2006. The table also presents the position of each rating in the applicable agency' s rating scale.

	A.M. Best	Moody' s	S&P	Fitch
St. Paul Travelers Reinsurance Pool(a,b)	A+ (2nd of 16)	Aa3 (4th of 21)	AA- (4th of 21)	AA- (4th of 24)
Travelers C&S of America	A+ (2nd of 16)	Aa3 (4th of 21)	A+ (5th of 21)	AA- (4th of 24)
Northland Pool(c)	A (3rd of 16)	–	–	–
First Floridian Auto and Home Ins. Co.	A- (4th of 16)	–	–	AA- (4th of 24)
First Trenton Indemnity Company	A (3rd of 16)	–	–	AA- (4th of 24)
The Premier Insurance Co. of MA	A (3rd of 16)	–	–	AA- (4th of 24)
Travelers Europe	A+ (2nd of 16)	Aa3 (4th of 21)	A+ (5th of 21)	–
Discover Reinsurance Company	A- (4th of 16)	–	–	–
Afianzadora Insurgentes, S.A.	A- (4th of 16)	–	–	–
St. Paul Guarantee Insurance Company	A (3rd of 16)	–	–	–
St. Paul Travelers Insurance Company Limited	A (3rd of 16)	–	–	–

(a) The St. Paul Travelers Reinsurance Pool consists of: The Travelers Indemnity Company, The Charter Oak Fire Insurance Company, The Phoenix Insurance Company, The Travelers Indemnity Company of Connecticut, The Travelers Indemnity Company of America, Travelers Property Casualty Company of America, Travelers Commercial Casualty Company, TravCo Insurance Company, The Travelers Home and Marine Insurance Company, Travelers Casualty and Surety Company, The Standard Fire Insurance Company, The Automobile Insurance Company of Hartford, Connecticut, Travelers Casualty Insurance Company of America, Farmington Casualty Company, Travelers Commercial Insurance Company, Travelers Casualty Company of Connecticut, Travelers Property Casualty Insurance Company, Travelers Personal Security Insurance Company, Travelers Personal Insurance Company, Travelers Excess and Surplus Lines Company, St. Paul Fire and Marine Insurance Company, St. Paul Surplus Lines Insurance Company, Athena Assurance

Company, St. Paul Protective Insurance Company, St. Paul Medical Liability Insurance Company, Discover Property & Casualty Insurance Company, Discover Specialty Insurance Company, and United States Fidelity and Guaranty Company.

(b) The following affiliated companies are 100% reinsured by one of the pool participants noted in (a) above: Atlantic Insurance Company, Fidelity and Guaranty Insurance Company, Fidelity and Guaranty Insurance Underwriters, Inc., Gulf Underwriters Insurance Company, Seaboard Surety Company, Select Insurance Company, St. Paul Fire and Casualty Insurance Company, St. Paul Guardian Insurance Company, St. Paul Mercury Insurance Company, The Travelers Lloyds Insurance Company and Travelers Lloyds of Texas Insurance Company.

(c) The Northland Pool consists of: Northland Insurance Company, Northfield Insurance Company, Northland Casualty Company, Mendota Insurance Company, Mendakota Insurance Company, American Equity Insurance Company and American Equity Specialty Insurance Company.

Debt Ratings

The following table summarizes the current debt, preferred stock and commercial paper ratings of the Company and its subsidiaries by A.M. Best, Moody’ s, S&P and Fitch as of August 3, 2006. The table also presents the position of each rating in the applicable agency’ s rating scale.

	A.M. Best	Moody’ s	S&P	Fitch
Senior debt	a- (7th of 22)	A3 (7th of 21)	A- (7th of 22)	A- (7th of 22)
Subordinated debt	bbb+ (8th of 22)	Baa (8th of 21)	BBB (9th of 22)	A- (7th of 22)
Junior subordinated debt	bbb+ (8th of 22)	Baa (8th of 21)	BBB- (10th of 22)	BBB+ (8th of 22)
Trust preferred securities	bbb (9th of 22)	Baa (8th of 21)	BBB- (10th of 22)	BBB+ (8th of 22)
Preferred stock	bbb (9th of 22)	Baa2 (9th of 21)	BBB- (10th of 22)	BBB+ (8th of 22)
Commercial paper.	AMB-1 (2nd of 6)	Prime-2 (2nd of 4)	A-2 (3rd of 8)	F-2 (3rd of 8)

CRITICAL ACCOUNTING ESTIMATES

The Company considers its most significant accounting estimates to be those applied to claim and claim adjustment expense reserves and related reinsurance recoverables, and investment impairments.

Claim and Claim Adjustment Expense Reserves

Claim and claim adjustment expense reserves (loss reserves) represent management’ s estimate of ultimate unpaid costs of losses and loss adjustment expenses for claims that have been reported and claims that have been incurred but not yet reported. Loss reserves do not represent an exact calculation of liability, but instead represent management estimates, generally utilizing actuarial expertise and projection techniques, at a given accounting date. These loss reserve estimates are expectations of what the ultimate settlement and administration of claims will cost upon final resolution in the future, based on the Company’ s assessment of facts and circumstances then known, review of historical settlement patterns, estimates of trends in claims severity and frequency, expected interpretations of legal theories of liability and other factors. In establishing reserves, the Company also takes into account estimated recoveries, reinsurance, salvage and subrogation. The reserves are reviewed regularly by a qualified actuary employed by the Company.

The process of estimating loss reserves involves a high degree of judgment and is subject to a number of variables. These variables can be affected by both internal and external events, such as changes in claims handling procedures, economic inflation, legal trends and legislative changes, among others. The impact of many of these items on ultimate costs for loss and loss adjustment expenses is difficult to estimate. Loss reserve estimation difficulties also differ significantly by product line due to differences in claim complexity, the volume of claims, the potential severity of individual claims, the determination of occurrence date for a claim and reporting lags (the time between the occurrence of the policyholder event and when it is actually reported to the insurer). Informed judgment is applied throughout the process. The Company continually refines its loss reserve estimates in a regular ongoing process as historical loss experience develops and additional claims are reported and settled. The Company attempts to consider all significant facts and circumstances known at the time loss reserves are established. Due to the inherent uncertainty underlying loss reserve estimates, including but not limited to the future settlement environment, final resolution of the estimated liability will be different from that anticipated at the reporting date. Therefore, actual paid losses in the future may yield a materially different amount than currently reserved−favorable or unfavorable.

Because establishment of loss reserves is an inherently uncertain process involving estimates, currently established reserves may change. The Company reflects adjustments, as necessary to reserves in the results of operations in the period the estimates are changed.

There are also risks which impact the estimation of ultimate costs for catastrophes. For example, the estimation of reserves related to hurricanes can be affected by the inability of the Company and its insureds to access portions of the impacted areas, the complexity of factors contributing to the losses, the legal and regulatory uncertainties and the nature of the information available to establish the reserves. Complex factors include, but are not limited to: determining whether damage was caused by flooding versus wind; evaluating general liability and pollution exposures; estimating additional living expenses; the impact of demand surge; infrastructure disruption; fraud; the effect of mold damage and business interruption costs; and reinsurance collectibility. The timing of a catastrophe' s occurrence, such as at or near the end of a reporting period, can also affect the information available to us in estimating reserves for that reporting period. The estimates related to catastrophes are adjusted, as necessary, as actual claims emerge.

A portion of the Company' s loss reserves are for asbestos and environmental claims and related litigation which aggregated $4.49 billion at June 30, 2006. While the ongoing study of asbestos claims and associated liabilities and of environmental claims considers the inconsistencies of court decisions as to coverage, plaintiffs' expanded theories of liability and the risks inherent in complex litigation and other uncertainties, in the opinion of the Company' s management, it is possible that the outcome of the continued uncertainties regarding these claims could result in liability in future periods that differs from current reserves by an amount that could be material to the Company' s future operating results and financial condition. See the preceding discussion of “Asbestos Claims and Litigation” and “Environmental Claims and Litigation.”

The Company acquired SPC' s runoff health care reserves in the merger of SPC and TPC, which are included in the General Liability product line in the table below. SPC decided to exit this market at the end of 2001 and ceased underwriting new business as quickly as regulatory considerations allowed. SPC had experienced significant adverse loss development on its health care loss reserves both prior to and since its decision to exit this market. The Company continues to utilize specific tools and metrics to explicitly monitor and validate its conclusions with regard to these reserves since management believed that its traditional statistics and reserving methods needed to be supplemented in order to provide a more meaningful analysis. The tools developed evaluate three primary indicators which influence those conclusions and include: newly reported claims; reserve development on known claims; and the “redundancy ratio,” which compares the cost of resolving claims to the current reserve established for that individual claim. These three indicators are related such that if one deteriorates, improvement on another is necessary for the Company to conclude that further reserve strengthening is not necessary. The Company' s current view is that it has recorded a reasonable reserve for its medical malpractice exposures as of June 30, 2006.

Claims and claim adjustment expense reserves by product line were as follows:

	June 30, 2006			December 31, 2005		
(in millions)	**Case**	**IBNR**	**Total**	**Case**	**IBNR**	**Total**
General liability	**$ 7,786**	**$ 12,242**	**$ 20,028**	$ 8,198	$ 12,251	$ 20,449
Property	**1,711**	**1,085**	**2,796**	1,987	1,050	3,037
Commercial multi-peril	**2,140**	**2,705**	**4,845**	2,448	2,901	5,349
Commercial automobile	**2,615**	**1,822**	**4,437**	2,792	1,885	4,677
Workers' compensation	**8,994**	**6,230**	**15,224**	8,816	6,374	15,190
Fidelity and surety	**1,089**	**781**	**1,870**	1,240	673	1,913

Personal automobile	**1,473**	**1,194**	**2,667**	1,470	1,138	2,608
Homeowners and personal−other	**468**	**932**	**1,400**	709	987	1,696
International and other	**3,481**	**3,368**	**6,849**	3,033	3,055	6,088
Property-casualty	**29,757**	**30,359**	**60,116**	30,693	30,314	61,007
Accident and health	**71**	**9**	**80**	74	9	83
Claims and claim adjustment expense reserves	**$ 29,828**	**$ 30,368**	**$ 60,196**	$ 30,767	$ 30,323	$ 61,090

The $894 million decline in gross claims and claim adjustment expense reserves since December 31, 2005 primarily reflected loss payouts for the third and fourth quarter 2005 hurricanes, loss payouts related to asbestos reserves and runoff operations, and net favorable prior year reserve development. These factors were partially offset by an increase for reserves acquired through reinsurance to close included in International and other reserves. See note 11 to the consolidated financial statements.

Asbestos and environmental reserves are included in the General liability, Commercial multi-peril lines and International and other lines in the summary table. Asbestos and environmental reserves are discussed separately, see "Asbestos Claims and Litigation", "Environmental Claims and Litigation" and "Uncertainty Regarding Adequacy of Asbestos and Environmental Reserves".

General Discussion

The process for estimating the liabilities for claim and claim expenses begins with the collection and analysis of claim data. Data on individual reported claims, both current and historical, including paid amounts and individual claim adjuster estimates, are grouped by common characteristics ("components") and evaluated by actuaries in their analyses of ultimate claim liabilities by product line. Such data is occasionally supplemented with external data as available and when appropriate. The process of analyzing reserves for a component is undertaken on a regular basis, generally quarterly, in light of continually updated information.

Multiple estimation methods are available for the analysis of ultimate claim liabilities. Each estimation method has its own set of assumption variables and its own advantages and disadvantages, with no single estimation method being better than the others in all situations and no one set of assumption variables being meaningful for all product line components. The relative strengths and weaknesses of the particular estimation methods when applied to a particular group of claims can also change over time. Therefore, the actual choice of estimation method(s) can change with each evaluation. The estimation method(s) chosen are those that are believed to produce the most reliable indication at that particular evaluation date for the claim liabilities being evaluated.

In most cases, multiple estimation methods will be valid for the particular facts and circumstances of the claim liabilities being evaluated. This will result in a range of reasonable estimates for any particular claim liability. The Company uses such range analyses to back test whether previously established estimates for reserves at the reporting segments are reasonable, given subsequent information. Reported values found to be closer to the endpoints of a range of reasonable estimates are subject to further detailed reviews. These reviews may substantiate the validity of management' s recorded estimate or lead to a change in the reported estimate.

The exact boundary points of these ranges are more qualitative than quantitative in nature, as no clear line of demarcation exists to determine when the set of underlying assumptions for an estimation method switches from being reasonable to unreasonable. As a result, the Company does not believe that the endpoints of these ranges are or would be comparable across companies. In addition, potential interactions among the different estimation assumptions for different product lines make the aggregation of individual ranges a highly judgmental and inexact process.

Property casualty insurance policies are either written on a claims made or on an occurrence basis. Policies written on a claims made basis require that claims be reported during the policy period. Policies that are written on an occurrence basis require that the insured demonstrate that a loss occurred in the policy period, even if the insured reports the loss many years later.

Most general liability policies are written on an occurrence basis. These policies are subject to substantial loss development over time as facts and circumstances change in the years following the policy issuance. The use of the occurrence form accounts for much of the reserve development in asbestos and environmental exposures, and it is also used to provide coverage for construction general liability, including construction defect. Occurrence based forms of insurance for general liability exposures require substantial projection of various trends, including future inflation and judicial interpretations and societal litigation dynamics, among others.

A basic premise in most actuarial analyses is that past patterns demonstrated in the data will repeat themselves in the future, absent a material change in the associated risk factors discussed below. To the extent a material change affecting the ultimate claim liability is known, such change is quantified to the extent possible through an analysis of internal company and, if available and when appropriate, external data. Such a measurement is specific to the facts and circumstances of the particular claim portfolio and the known change being evaluated. Significant structural changes to the available data, product mix or organization can materially impact the reserve estimation process.

Informed management judgment is applied throughout the reserving process. This includes the application, on a consistent basis over time, of various individual experiences and expertise to multiple sets of data and analyses. In addition to actuaries, individuals involved with the reserving process also include underwriting and claims personnel as well as other company management. Therefore, it is quite possible and, generally, likely that management must consider varying individual viewpoints as part of its estimation of loss reserves. It is also likely that during periods of significant change, such as a merger, consistent application of informed judgment becomes even more complicated and difficult.

The variables discussed above in this general discussion have different impacts on reserve estimation uncertainty for a given product line, depending on the length of the claim tail, the reporting lag, the impact of individual claims and the complexity of the claim process for a given product line.

Product lines are generally classifiable as either long tail or short tail, based on the average length of time between the event triggering claims under a policy and the final resolution of those claims. Short tail claims are reported and settled quickly, resulting in less estimation variability. The longer the time before final claim resolution, the greater the exposure to estimation risks and hence the greater the estimation uncertainty.

A major component of the claim tail is the reporting lag. The reporting lag, which is the time between the event triggering a claim and the reporting of the claim to the insurer, makes estimating IBNR inherently more uncertain. In addition, the greater the reporting lag the greater the proportion of IBNR claims to the total claim liability for the product line. Writing new products with material reporting lags can result in adding several years' worth of IBNR claim exposure before the reporting lag exposure becomes clearly observable, thereby increasing the risk associated with pricing and reserving such products. The most extreme example of claim liabilities with long reporting lags are asbestos claims.

For some lines, the impact of large individual claims can be material to the analysis. These lines are generally referred to as being low frequency/high severity, while lines without this "large claim" sensitivity are referred to as "high frequency/low severity". Estimates of claim liabilities for low frequency/high severity lines can be sensitive to the impact of a small number of potentially large claims. As a result, the role of judgment is much greater for these reserve estimates. In contrast, high frequency/low severity lines tend to have much greater spread of estimation risk, such that the impact of individual claims are relatively minor and the range of reasonable reserve estimates is narrower and more stable.

Claim complexity can also greatly affect the estimation process by impacting the number of assumptions needed to produce the estimate, the potential stability of the underlying data and claim process and the ability to gain an understanding of the data. Product lines with greater claim complexity, such as for certain surety and construction exposures, have inherently greater estimation uncertainty.

Actuaries have to exercise a considerable degree of judgment in the evaluation of all these factors in their analysis of reserves. The human element in the application of actuarial judgment is unavoidable when faced with material uncertainty. Different experts will choose different assumptions when faced with such uncertainty, based on their individual backgrounds, professional experiences and areas of focus. Hence, the estimate selected by the various actuaries may differ materially from each other.

Lastly, significant structural changes to the available data, product mix or organization can also materially impact the reserve estimation process. For example, the merger of SPC and TPC resulted in the exposure of each other' s actuaries and claim departments to different products, data histories, analysis methodologies, claim settlement experts and more robust data when viewed on a combined basis. This impacted the range of estimates produced by the Company' s actuaries, as they reacted to new data, approaches and sources of expertise to draw upon. It also resulted in additional levels of uncertainty, as past trends (that were a function of past products, past claim handling procedures, past claim departments, and past legal and other experts) may not repeat themselves, as those items affecting the trends change or evolve due to the merger. This also increased the potential for material variation in estimates, as experts can have differing views as to the impact of these frequently evolutionary changes. Events such as mergers increase the inherent uncertainty of reserve estimates for a period of time, until stable trends reestablish themselves within the new organization.

Risk Factors

The major causes of material uncertainty ("risk factors") generally will vary for each product line, as well as for each separately analyzed component of the product line. In a few cases, such risk factors are explicit assumptions of the estimation method and in most cases, they are implicit. For example, a method may explicitly assume that a certain percentage of claims will close each year, but will implicitly assume that the legal interpretation of existing contract language will remain unchanged. Actual results will likely vary from expectations for each of these assumptions, resulting in an ultimate claim liability that is different from that being estimated currently.

Some risk factors will affect more than one product line. Examples include changes in claim department practices, changes in settlement patterns, regulatory and legislative actions, court actions, timeliness of claim reporting, state mix of claimants and degree of claimant fraud. The extent of the impact of a risk factor will also vary by components within a product line. Individual risk factors are also subject to interactions with other risk factors within product line components.

The effect of a particular risk factor on estimates of claim liabilities cannot be isolated in most cases. For example, estimates of potential claim settlements may be impacted by the risk associated with potential court rulings, but the final settlement agreement typically does not delineate how much of the settled amount is due to this and other factors.

The evaluation of data is also subject to distortion from extreme events or structural shifts, sometimes in unanticipated ways. For example, the timing of claims payments in one geographic region will be impacted if claim adjusters are temporarily reassigned from that region to help settle catastrophe claims in another region.

While some changes in the claim environment are sudden in nature (such as a new court ruling affecting the interpretation of all contracts in that jurisdiction), others are more evolutionary. Evolutionary changes can occur when multiple factors affect final claim values, with the uncertainty surrounding each factor being resolved separately, in step-wise fashion. The final impact is not known until all steps have occurred.

Sudden changes generally cause a one-time shift in claim liability estimates, although there may be some lag in reliable quantification of their impact. Evolutionary changes generally cause a series of shifts in claim liability estimates, as each component of the evolutionary change becomes evident and estimable.

Management' s Estimates

At least once per quarter, Company management meets with its actuaries to review the latest claim and claim adjustment expense reserve analyses. Based on these analyses, management determines whether its ultimate claim liability estimates should be changed. In doing so, it must evaluate whether the new data provided represents credible actionable information or an anomaly that will have no effect on estimated ultimate claim liability. For example, as described above, payments may have decreased in one geographic region due to fewer claim adjusters being available to process claims. The resulting claim payment patterns would be analyzed to determine whether or not the change in payment pattern represents a change in ultimate claim liability.

Such an assessment requires considerable judgment. It is frequently not possible to determine whether a change in the data is an anomaly until sometime after the event. Even if a change is determined to be permanent, it is not always possible to reliably determine the extent of the change until sometime later. The overall detailed analyses supporting such an effort can take several months to perform. This is due to the need to evaluate the underlying cause of the trends observed and may include the gathering or assembling of data not previously available. It may also include interviews with experts involved with the underlying processes. As a result, there can be a time lag between the emergence of a change and a determination that the change should be reflected in the Company' s estimated claim liabilities. The final estimate selected by management in a reporting period is a function of these detailed analyses of past data, adjusted to reflect any new actionable information.

Reinsurance Recoverables

The following table summarizes the composition of the Company' s reinsurance recoverable assets:

(in millions)	June 30, 2006	December 31, 2005
Gross reinsurance recoverables on paid and unpaid claims and claim adjustment expenses	**$ 13,863**	$ 14,177
Allowance for uncollectible reinsurance	**(799)**	(804)
Net reinsurance recoverables	**13,064**	13,373
Mandatory pools and associations	**1,986**	2,211
Structured settlements	**3,762**	3,990
Total reinsurance recoverables	**$ 18,812**	$ 19,574

The Company reports its reinsurance recoverables net of an allowance for estimated uncollectible reinsurance recoverables. The allowance is based upon the Company' s ongoing review of amounts outstanding, length of collection periods, changes in reinsurer credit standing, disputes, applicable coverage defenses and other relevant factors. Accordingly, the establishment of reinsurance recoverables and the related allowance for uncollectible reinsurance recoverables is also an inherently uncertain process involving estimates. Changes in these estimates could result in additional income statement charges.

Investment Impairments

See note 4 to the consolidated financial statements.

OTHER MATTERS

Renewal of Catastrophe Reinsurance Coverage

The Company utilizes reinsurance agreements with nonaffiliated reinsurers to manage its exposure to losses resulting from one occurrence. The General Catastrophe reinsurance treaty covers the accumulation of net property losses arising out of one occurrence. The coverage provided under the General Catastrophe reinsurance treaties, effective for the time periods indicated, is as follows:

July 1, 2005 - June 30, 2006		July 1, 2006 - June 30, 2007	
Layer of Loss	Reinsurance Coverage In-Force	Layer of Loss	Reinsurance Coverage In-Force

$750 million - $1.0 billion	38.4% ($96 million) of loss retained by the Company; 61.6% ($154 million) of loss covered by catastrophe treaty	$1 billion - $1.50 billion	72.4% ($362 million) of loss retained by the Company; 27.6% ($138 million) of loss covered by catastrophe treaty
$1.0 billion - $2.0 billion	27.9% ($279 million) of loss retained by the Company; 72.1% ($721 million) of loss covered by catastrophe treaty	$1.50 billion - $2.25 billion	44.0% ($330 million) of loss retained by the Company; 56.0% ($420 million) of loss covered by catastrophe treaty
Greater than $2.0 billion	Loss 100% retained by the Company	Greater than $2.25 billion	Loss 100% retained by the Company

These agreements exclude nuclear, chemical, biochemical and radiological losses and all terrorism losses as defined by the Terrorism Risk Insurance Act of 2002 and the Terrorism Risk Insurance Extension Act of 2005. The current agreement covers all of the Company' s exposures in the United States and Canada and their possessions and waters contiguous thereto, the Caribbean and Mexico. For business underwritten in Canada, the United Kingdom, Republic of Ireland and in the Company' s operations at Lloyd' s, separate reinsurance protections are purchased locally that have lower net retentions more commensurate with the size of the respective local balance sheet. The Company conducts an ongoing review of its risk and catastrophe coverages and makes changes as it deems appropriate.

In addition to renewing its General Catastrophe treaty, the Company also purchased a Northeast General Catastrophe treaty providing $500 million of coverage, subject to a $2.25 billion retention, for losses arising from hurricanes, earthquakes and winter storm or freeze losses from Virginia to Maine, and waters contiguous thereto. In a covered event, the treaty allows for losses from other regions to be utilized to satisfy the retention.

Unresolved Staff Comments

On July 23, 2004, the Company announced that it was seeking guidance from the staff of the Division of Corporation Finance of the SEC with respect to the appropriate purchase accounting treatment for certain second quarter 2004 adjustments totaling $1.63 billion ($1.07 billion after-tax). The Company recorded these adjustments as charges in its consolidated statement of income in the second quarter of 2004. Through an informal comment process, the staff of the Division of Corporation Finance has subsequently asked for further information, which the Company has provided. Specifically, the staff has asked for information concerning the Company' s adjustments to certain of SPC' s insurance reserves and reserves for reinsurance recoverables and premiums due from policyholders, and how those adjustments may relate to SPC' s reserves for periods prior to the merger of SPC and TPC. After reviewing the staff' s questions and comments and discussions with the Company' s independent auditors, the Company continues to believe that its accounting treatment for these adjustments is appropriate. If, however, the staff disagrees, some or all of the adjustments being discussed may not be recorded as charges in the Company' s consolidated statement of income, thereby increasing net income for the second quarter and full year 2004 and increasing shareholders' equity at June 30, 2006 and December 31, 2005 and 2004, in each case by the approximate after-tax amount of the change. The effect on tangible shareholders' equity (adjusted for the effects of deferred taxes associated with goodwill and intangible assets) at June 30, 2006 and December 31, 2005 and 2004 would not be material. Increases to goodwill and deferred tax liabilities would be reflected on the Company' s balance sheet as of April 1, 2004, either due to purchase accounting or adjustment of SPC' s reserves prior to the merger of SPC and TPC. On May 3, 2006, the Company received a letter from the Division of Enforcement of the SEC (the "Division") advising the Company that it is conducting an inquiry relating to the second quarter 2004 adjustments and the April 1, 2004 merger between SPC and TPC. The Company is cooperating with the Division' s requests for information.

FUTURE APPLICATION OF ACCOUNTING STANDARDS

See note 1 to the consolidated financial statements for a discussion of recently issued accounting pronouncements.

OUTLOOK

The Company believes that the trend of increased severity and frequency of storms experienced in 2005 and 2004 may continue in the foreseeable future. Given the increased severity and frequency of storms, the Company has reassessed its definition of and exposure to coastal risks, as well as the impact on its reinsurance program. Accordingly, the Company is reviewing the pricing, exposures, return thresholds and terms and conditions it offers in coastal areas. In part as a result of the severity and frequency of storms in 2005 and 2004, the Company's cost of reinsurance has increased and the amount of reinsurance coverage purchased has been reduced. The cost of reinsurance may continue to increase and availability may continue to decline. To the extent that the Company is not able to reflect the potentially increased costs of increased severity and frequency of storms or reinsurance in its pricing, the Company's results of operations may be adversely impacted. In particular, in the Personal segment (and, to a lesser extent, in the Commercial segment's Select Accounts market), the Company expects a delay in its ability to increase pricing to offset these potentially increased costs since the Company cannot increase rates to the extent necessary without the approval of the regulatory authorities of certain states. Also, particularly in light of the frequency and severity of storms in the past two years, rating agencies are increasing their capital requirements for the Company.

There are currently various state and federal legislative and judicial proposals relating to asbestos liability. At this time, it is not possible to predict the likelihood or timing of such proposals being enacted or their effect if they are enacted. The Company's ongoing analysis of its asbestos reserves did not assume the adoption of any asbestos reforms. For information about the outlook with respect to asbestos-related claims and liabilities, see "–Asbestos Claims and Litigation" and "–Uncertainty Regarding Adequacy of Asbestos and Environmental Reserves."

FORWARD-LOOKING STATEMENTS

This report contains, and management may make, certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, may be forward-looking statements. Specifically, earnings guidance and statements about the Company's share repurchase plans are forward looking, and the Company may make forward-looking statements about its results of operations (including, among others, premium volume, income from continuing operations, net and operating income and return on equity), financial condition and liquidity; the sufficiency of asbestos and other reserves (including, among others, asbestos claim payment patterns); post-merger expense savings; the cost and availability of reinsurance coverage; and strategic initiatives. Such statements are subject to risks and uncertainties, many of which are difficult to predict and generally beyond the Company's control, that could cause actual results to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements.

Some of the factors that could cause actual results to differ include, but are not limited to, the following: catastrophe losses could materially reduce the Company's profitability and adversely impact its ratings, its ability to raise capital and the availability and cost of reinsurance; the Company's business could be harmed because of its potential exposure to asbestos and environmental claims and related litigation; reinsurance may not protect the Company against losses; the Company is exposed to, and may face adverse developments involving, mass tort claims such as those relating to exposure to potentially harmful products or substances; if actual claims exceed the Company's loss reserves, or if changes in the estimated level of loss reserves are necessary, the Company's financial results could be significantly and adversely affected; the effects of emerging claim and coverage issues on the Company's business are uncertain; the Company may incur loss and loss adjustment expenses as a result of disclosures by, and investigations of, companies for which it has written directors' and officers' insurance relating to possible accounting irregularities, corporate governance issues and stock option "backdating," "spring-loading" and other stock option grant practices; the insurance industry, including the Company, is the subject of a number of investigations by state and federal authorities in the United States, and the Company cannot predict the outcome of these investigations or their impact on its business or financial results; the Company's businesses are heavily regulated and changes in regulation may reduce the Company's profitability and limit its growth; assessments and other surcharges for guaranty funds, second-injury funds, catastrophe funds and other mandatory pooling arrangements may reduce the Company's profitability; a downgrade in the Company's claims-paying and financial strength ratings could significantly reduce its business volumes, adversely impact its ability to access the capital markets and increase its borrowing costs; the Company's investment portfolio may suffer reduced returns or losses which could reduce its profitability; the intense competition that the

Company faces could harm its ability to maintain or increase its profitability and premium volume; the Company may not be able to execute announced and future strategic initiatives as planned; the inability of the Company' s

insurance subsidiaries to pay dividends to the Company in sufficient amounts would limit its ability to meet its obligations and to pay future dividends; loss or significant restriction of the use of credit scoring or other variables in the pricing and underwriting of personal lines products could reduce the Company' s future profitability; disruptions to the Company' s relationships with its distributors, independent agents and brokers could adversely affect the Company' s future income and profitability; if the Company experiences difficulties with outsourcing relationships, its ability to conduct its business might be negatively impacted; and the effects of corporate bankruptcies on surety bond claims.

The Company' s forward-looking statements speak only as of the date of this report or as of the date they are made and the Company undertakes no obligation to update forward-looking statements. For a more detailed discussion of these factors, see the information under the caption "Risk Factors" in the Company' s most recent annual report on Form 10-K filed with the Securities and Exchange Commission.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes in the Company' s market risk components since December 31, 2005.

Item 4. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act)) that are designed to ensure that information required to be disclosed in the Company' s reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission' s rules and forms, and that such information is accumulated and communicated to the Company' s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. The Company' s management, with the participation of the Company' s Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company' s disclosure controls and procedures as of June 30, 2006. Based upon that evaluation and subject to the foregoing, the Company' s Chief Executive Officer and Chief Financial Officer concluded that the design and operation of the Company' s disclosure controls and procedures provided reasonable assurance that the disclosure controls and procedures are effective to accomplish their objectives.

In addition, there was no change in the Company' s internal control over financial reporting (as that term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended June 30, 2006 that has materially affected, or is reasonably likely to materially affect, the Company' s internal control over financial reporting.

PART II − OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

This 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 the Company' s property is 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, hazardous waste and other toxic substances 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.

TPC is involved in three significant proceedings (including a bankruptcy proceeding) relating to ACandS, Inc. (ACandS), formerly a national distributor and installer of products containing asbestos. The proceedings involve disputes as to whether and to what extent any of ACandS' potential liabilities for current or future bodily injury asbestos claims are covered by insurance policies issued by TPC. The status of the various proceedings is described below.

ACandS filed for bankruptcy in September 2002 (*In re: ACandS, Inc.,* pending in the U.S. Bankruptcy Court for the District of Delaware). In its proposed plan of reorganization, ACandS sought to establish a trust to pay asbestos bodily injury claims against it and sought to assign to the trust its rights under the insurance policies issued by TPC. The proposed plan and disclosure statement filed by ACandS claimed that ACandS had settled the vast majority of asbestos-related bodily injury claims currently pending against it for approximately $2.80 billion. ACandS asserts that, based on a prior agreement between TPC and ACandS and ACandS' interpretation of the July 31, 2003 arbitration panel ruling described below, TPC is liable for 45% of the $2.80 billion. On January 26, 2004, the bankruptcy court issued a decision rejecting confirmation of ACandS' proposed plan of reorganization. The bankruptcy court found, consistent with TPC' s objections to ACandS' proposed plan, that the proposed plan was not fundamentally fair, was not proposed in good faith and did not comply with Section 524(g) of the Bankruptcy Code. ACandS has filed a notice of appeal of the bankruptcy court' s decision and has filed objections to the bankruptcy court' s findings of fact and conclusions of law in the United States District Court. TPC has moved to dismiss the appeal and objections and has also filed an opposition to ACandS' objections.

An arbitration was commenced in January 2001 to determine whether and to what extent ACandS' financial obligations for bodily injury asbestos claims are subject to insurance policy aggregate limits. On July 31, 2003, the arbitration panel ruled in favor of TPC that asbestos bodily injury claims against ACandS are subject to the aggregate limits of the policies issued to ACandS, which have been exhausted. In October 2003, ACandS commenced a lawsuit seeking to vacate the arbitration award as beyond the panel' s scope of authority (*ACandS, Inc. v. Travelers Casualty and Surety Co.,* U.S.D.Ct. E.D. Pa.). On September 16, 2004, the district court entered an order denying ACandS' motion to vacate the arbitration award. On January 19, 2006, the United States Court of Appeals for the Third Circuit reversed the district court' s decision and declared the arbitration award void on procedural grounds. On May 22, 2006, the United States Supreme Court denied TPC' s petition for a writ of certiorari seeking review of the Third Circuit' s decision. As a result, the matter has been remanded to district court and TPC has asked the district court to remand the arbitration to the panel that initially ruled in favor of TPC for further proceedings consistent with the Third Circuit' s decision. ACandS has opposed that request.

In the other proceeding, a related case pending before the same court and commenced in September 2000 (*ACandS v. Travelers Casualty and Surety Co.*, U.S.D.Ct., E.D. Pa.), ACandS sought a declaration of the extent to which the asbestos bodily injury claims against ACandS are subject to occurrence limits under insurance policies issued by TPC. TPC filed a motion to dismiss this action based upon the July 31, 2003 arbitration decision described above. The district court found the dispute was moot as a result of the arbitration panel' s decision and dismissed the case. As a result of the January 19, 2006 ruling by the Third Circuit and the Supreme Court' s denial of certiorari, described in the paragraph above, this case has been reinstated.

The Company continues to believe it has meritorious positions in these ACandS-related proceedings and intends to litigate vigorously.

In October 2001 and April 2002, two purported class action suits (*Wise v. Travelers* and *Meninger v. Travelers*) were filed against TPC and other insurers (not including SPC) in state court in West Virginia. These cases were subsequently consolidated into a single proceeding in the Circuit Court of Kanawha County, West Virginia. Plaintiffs allege that the insurer defendants engaged in unfair trade practices 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. Lawsuits similar to *Wise* were filed in Massachusetts and Hawaii (these suits are collectively referred to as the "Statutory and Hawaii Actions"). Also, in November 2001, plaintiffs in consolidated asbestos actions pending before a mass tort panel of judges in West Virginia state court moved to amend their complaint to name TPC as a defendant, alleging that TPC and other insurers breached alleged duties to certain users of asbestos products. In March 2002, the court granted the motion to amend. Plaintiffs seek damages, including punitive damages. Lawsuits seeking similar relief and raising allegations similar to those presented in the West Virginia amended complaint are also pending in Texas state court against TPC and SPC, and in Louisiana state court against TPC (the claims asserted in these suits, together with the West Virginia suit, are collectively referred to as the "Common Law Claims"). Lawsuits seeking similar relief in Ohio have been dismissed.

All of the actions against TPC described in the preceding paragraph, other than the Hawaii Actions, had been subject to a temporary restraining order entered by the federal bankruptcy court in New York that had previously presided over and approved the reorganization in bankruptcy of TPC' s former policyholder Johns-Manville Corporation and affiliated entities. In August 2002, the bankruptcy court held a hearing on TPC' s motion for a preliminary injunction prohibiting further prosecution of the lawsuits pursuant to the reorganization plan and related orders. At the conclusion of this hearing, the court ordered the parties to mediation, appointed a mediator and continued the temporary restraining order. During 2003, the same

bankruptcy court extended the existing injunction to apply to an additional set of cases filed in various state courts in Texas and Ohio as well as to the attorneys who are prosecuting these cases. The order also enjoined these attorneys and their respective law firms from commencing any further lawsuits against TPC based upon these allegations without the prior approval of the court. Notwithstanding the injunction, additional Common Law Claims were filed and served on TPC.

On November 19, 2003, the parties advised the bankruptcy court that a settlement of the Statutory and Hawaii Actions had been reached. This settlement includes a lump-sum payment of up to $412 million by TPC, subject to a number of significant contingencies. After continued meetings with the mediator, the parties advised the bankruptcy court on May 25, 2004 that a settlement resolving substantially all pending and similar future Common Law Claims against TPC had also been reached. This settlement requires a payment of up to $90 million by TPC, subject to a number of significant contingencies. Each of these settlements is contingent upon, among other things, an 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 in connection with the original Johns-Manville bankruptcy proceedings.

On August 17, 2004, the bankruptcy court entered an order approving the settlements and clarifying its prior orders that all of the pending Statutory and Hawaii Actions and substantially all Common Law Claims pending against TPC are barred. The order also applies to similar direct action claims that may be filed in the future.

Four appeals were taken from the August 17, 2004 ruling. On March 29, 2006, the U.S. District Court for the Southern District of New York substantially affirmed the bankruptcy court' s orders while vacating that portion of the bankruptcy court' s orders that required all future direct actions against TPC to first be approved by the bankruptcy court before proceeding in state or federal court. Judgment was entered on March 31, 2006.

Appeals from the March 29, 2006 ruling have been filed with the U.S. Court of Appeals for the Second Circuit. Those appeals remain pending and it is not possible to predict how the appellate court will rule on the pending appeals. The Company has no obligation to pay any of the settlement amounts unless and until the orders and relief become final and are not subject to any further appellate review.

SPC, which is not covered by the bankruptcy court rulings or the settlements described above, has numerous defenses in all of the direct action cases asserting Common Law Claims that are pending against it. SPC' s defenses include the fact that these novel theories have no basis in law; that they are directly at odds with the well-established law pertaining to the insured/insurer relationship; that there is no generalized duty to warn as alleged by the plaintiffs; and that the applicable statute of limitations as to many of these claims has long since expired. Many of these defenses have been raised in initial motions to dismiss filed by SPC and other insurers. There have been favorable rulings during 2003 and 2004 in Texas and during 2004 and 2005 in Ohio on some of these motions filed by SPC and other insurers that dealt with statute of limitations and the validity of the alleged causes of actions. On May 26, 2005, the Court of Appeals of Ohio, Eighth District, affirmed the earliest of these favorable rulings. In Texas, only one court, in June of 2005, has denied the insurers' initial challenges to the pleadings. That ruling was contrary to the rulings by other courts in similar cases, and SPC and the other insurer defendants have filed a mandamus petition with the Texas Court of Appeals.

The Company is defending its asbestos- and environmental-related litigation vigorously and believes that it has meritorious defenses; however, the outcome of these disputes is uncertain. In this regard, the Company employs dedicated specialists and aggressive resolution strategies to manage asbestos and environmental loss exposure, including settling litigation under appropriate circumstances. For a discussion of other information regarding the Company’ s asbestos and environmental exposure, see “Item 2 − Management’ s Discussion and Analysis of Financial Condition and Results of Operations − Asbestos Claims and Litigation”, “− Environmental Claims and Litigation” and “− Uncertainty Regarding Adequacy of Asbestos and Environmental Reserves.”

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 and financial condition in future periods.

Shareholder Litigation and Related Proceedings

Three actions against the Company and certain of its current and former officers and directors are pending in the United States District Court for the District of Minnesota. Two of these actions, which were originally captioned *Kahn v. The St. Paul Travelers Companies, Inc., et al.* (Nov. 2, 2004) and *Michael A. Bernstein Profit Sharing Plan v. The St. Paul Travelers Companies, Inc., et al.* (Nov. 10, 2004), are putative class actions brought by certain shareholders of the Company against the Company and certain of its current and former officers and directors. These actions have been consolidated as *In re St. Paul Travelers Securities Litigation II*, and a lead plaintiff and lead counsel have been appointed. On July 11, 2005, the lead plaintiff filed an amended consolidated complaint. The amended consolidated complaint alleges violations of federal securities laws in connection with the Company’ s alleged failure to make disclosure relating to the practice of paying brokers commissions on a contingent basis, the Company’ s alleged involvement in a conspiracy to rig bids and the Company’ s allegedly improper use of finite reinsurance products. On September 26, 2005, the Company and the other defendants in *In re St. Paul Travelers Securities Litigation II* moved to dismiss the amended consolidated complaint for failure to state a claim. Oral argument on the Company’ s motion to dismiss was presented on June 15, 2006. In the third of these actions, an alleged beneficiary of the Company’ s 401(k) savings plan commenced a putative class action against the Company and certain of its current and former officers and directors captioned *Spiziri v. The St. Paul Travelers Companies, Inc., et al.* (Dec. 28, 2004). The complaint alleges violations of the Employee Retirement Income Security Act based on the theory that defendants were allegedly aware of issues concerning the value of SPC’ s loss reserves yet failed to protect plan participants from continued investment in Company stock. On June 1, 2005, the Company and the other defendants in *Spiziri* moved to dismiss the complaint. On January 4, 2006, the parties in *Spiziri* entered into a stipulation of settlement. The settlement remains subject to court approval.

In addition, two derivative actions have been brought in the United States District Court for the District of Minnesota against all of the Company’ s current directors and certain of the Company’ s former Directors, naming the Company as a nominal defendant: *Rowe v. Fishman, et al.* (Oct. 22, 2004) and *Clark v. Fishman, et al.* (Nov. 18, 2004). The derivative actions have been consolidated for pretrial proceedings as *Rowe, et al. v. Fishman, et al*. and a consolidated derivative complaint has been filed. The consolidated derivative complaint asserts state law claims, including breach of fiduciary duty, based on allegations similar to those alleged in *In re St. Paul Travelers Securities Litigation II* and *Spiziri* described above. On March 23, 2006, the Court dismissed the complaint without prejudice and, on March 30, 2006, entered judgment in favor of the Company and the other defendants. On June 5, 2006, plaintiffs in *Rowe* moved to alter or amend the judgment for leave to file an amended complaint. The Company and the other defendants have opposed that motion.

The Company believes that the pending lawsuits have no merit and intends to defend vigorously; however, the Company is not able to provide any assurance that the financial impact of one or more of these proceedings will not be material to the Company’ s results of operations in a future period. The Company is obligated to indemnify its officers and directors to the extent provided under Minnesota law. As part of that obligation, the Company will advance officers and directors attorneys’ fees and other expenses they incur in defending these lawsuits.

Other Proceedings

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. These proceedings may be initiated by the Company or the reinsurers and may involve the terms of the reinsurance agreements, the coverage of particular claims, exclusions under the agreements, as well as counterclaims for rescission of the agreements. One of these disputes is the action described in the following paragraph.

The Company' s Gulf operation brought an action on May 22, 2003, as amended on May 12, 2004, in the Supreme Court of New York, County of New York (*Gulf Insurance Company v. Transatlantic Reinsurance Company, et al.*), against Transatlantic Reinsurance Company (Transatlantic), XL Reinsurance America, Inc. (XL), Odyssey America Reinsurance Corporation (Odyssey), Employers Reinsurance Company (Employers) and Gerling Global Reinsurance Corporation of America (Gerling), to recover amounts due under reinsurance contracts issued to Gulf and related to Gulf' s February 2003 settlement of a coverage dispute under a vehicle residual value protection insurance policy. The reinsurers have asserted counterclaims seeking rescission of the vehicle residual value reinsurance contracts issued to Gulf and unspecified damages for breach of contract. Separate actions filed by Transatlantic and Gerling have been consolidated with the original Gulf action for pre-trial purposes. On October 1, 2003, Gulf entered into a final settlement agreement with Employers, and all claims and counterclaims with respect to Employers have been dismissed.

On May 26, 2004, the Court denied Gulf' s motion to dismiss certain claims asserted by Transatlantic and a joint motion by Transatlantic, XL and Odyssey for summary judgment against Gulf. The Court has not yet set a trial date. Gulf denies the reinsurers' allegations, believes that it has a strong legal basis to collect the amounts due under the reinsurance contracts and intends to vigorously pursue the actions.

Based on the Company' s beliefs about its legal positions in its various reinsurance recovery proceedings, the Company does not expect any of these matters will have a material adverse effect on its results of operations in a future period.

As part of ongoing, industry-wide investigations, the Company and its affiliates have received subpoenas and written requests for information from government agencies and authorities. The areas of inquiry addressed to the Company include its relationship with brokers and agents, the Company' s involvement with "non-traditional insurance and reinsurance products," branding requirements for salvage automobiles and the reporting of workers' compensation premiums. The Company or its affiliates have received subpoenas or requests for information, in each case with respect to one or more of the areas described above, from: (i) State of California Office of the Attorney General; (ii) State of California Department of Insurance; (iii) Licensing and Market Conduct Compliance Division, Financial Services Commission of Ontario, Canada; (iv) State of Connecticut Insurance Department; (v) State of Connecticut Office of the Attorney General; (vi) State of Delaware Department of Insurance; (vii) State of Florida Department of Financial Services; (viii) State of Florida Office of Insurance Regulation; (ix) State of Florida Department of Legal Affairs Office of the Attorney General; (x) State of Georgia Office of the Commissioner of Insurance; (xi) State of Hawaii Office of the Attorney General; (xii) State of Illinois Office of the Attorney General; (xiii) State of Illinois Department of Financial and Professional Regulation; (xiv) State of Iowa Insurance Division; (xv) State of Maryland Office of the Attorney General; (xvi) State of Maryland Insurance Administration; (xvii) Commonwealth of Massachusetts Office of the Attorney General; (xviii) State of Minnesota Department of Commerce; (xix) State of Minnesota Office of the Attorney General; (xx) State of New Hampshire Insurance Department; (xxi) State of New York Office of the Attorney General; (xxii) State of New York Insurance Department; (xxiii) State of North Carolina Department of Insurance; (xxiv) State of Ohio Office of the Attorney General; (xxv) State of Ohio Department of Insurance; (xxvi) State of Oregon Department of Justice; (xxvii) Commonwealth of Pennsylvania Office of the Attorney General; (xxviii) State of Texas Office of the Attorney General; (xxvix) State of Texas Department of Insurance; (xxx) Commonwealth of Virginia Office of the Attorney General; (xxxi) State of Washington Office of the Insurance Commissioner; (xxxii) State of West Virginia Office of Attorney General; (xxxiii) the United States Attorney for the Southern District of New York; and (xxxiv) the United States Securities and Exchange Commission. The Company and its affiliates may receive additional subpoenas and requests for information with respect to the areas described above from other agencies or authorities.

The Company is cooperating with these subpoenas and requests for information. In addition, outside counsel, with the oversight of the Company' s Board of Directors, has been conducting an internal review of certain of the Company' s business practices. This review initially focused on the Company' s relationship with brokers and was commenced after the announcement of litigation brought by the New York Attorney General' s office against a major broker.

The internal review was expanded to address the various requests for information described above and to verify whether the Company' s business practices in these areas have been appropriate. The Company' s review has been extensive, involving the examination of e-mails and underwriting files, as well as interviews of current and former employees. The Company also continues to receive and respond to additional requests for information and will expand its review accordingly.

To date, the Company has found only a few instances of conduct that were inconsistent with the Company' s employee code of conduct. The Company has responded, and will continue to respond, appropriately to any such conduct.

The Company' s internal review with respect to finite reinsurance considered finite products the Company both purchased and sold. The Company has completed its review with respect to the identified finite products purchased and sold, and has concluded that no adjustment to previously issued financial statements is required.

On August 1, 2006, the Company entered into an Assurance of Discontinuance with the Office of the Attorney General of the State of New York, the Office of the Attorney General of the State of Illinois and the Office of the Attorney General of the State of Connecticut, and a Stipulation with the New York State Department of Insurance resolving issues related to their industry-wide investigations described above.

Pursuant to these agreements, copies of which are filed as exhibits to this Quarterly Report on Form 10-Q, the Company will make payments totaling $77 million, $37 million of which will be available for certain excess casualty policyholders and the remaining $40 million of which will be paid in fines or penalties. These payments have been funded by the $42 million provision for legal expenses recorded in the second quarter of 2006, along with additional amounts that had previously been recorded. In addition, the Company has agreed to implement certain business reforms. Among other things, the Company has agreed not to pay any contingent commissions to insurance brokers or agents on excess casualty business in the United States through 2008 and to discontinue paying contingent commissions to insurance brokers or agents on any lines of business if 65% of the United States market for that line does not pay such commissions or has signed a similar agreement.

Previously described industry-wide investigations, other than those resolved on August 1, 2006 as described above, are ongoing, as are the Company' s efforts to cooperate with the authorities, and the various authorities could ask that additional work be performed or reach conclusions different from the Company' s. Accordingly, it would be premature to reach any conclusions as to the likely outcome of these matters.

Six putative class action lawsuits and three individual actions 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. Plaintiffs allege 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. Five of the class actions were filed in federal district court, and the complaints are captioned: *Shell Vacations LLC v. Marsh & McLennan Companies, Inc., et al.* (N.D. Ill. Jan. 14, 2005), *Redwood Oil Company v. Marsh & McLennan Companies, Inc.*, *et al.* (N.D. Ill. Jan. 21, 2005), *Boros v. Marsh & McLennan Companies, Inc., et al.* (N.D. Cal. Feb. 4, 2005), *Mulcahy v. Arthur J. Gallagher & Co., et al.* (D.N.J. Feb. 23, 2005) and *Golden Gate Bridge, Highway, and Transportation District v. Marsh & McLennan Companies, Inc., et al.* (D.N.J. Feb. 23, 2005). The plaintiff in one of the five actions, *Shell Vacations LLC*, later voluntarily dismissed its complaint. To the extent they were not originally filed there, the federal class actions were transferred by the Judicial Panel on Multidistrict Litigation to the United States District Court for the District of New Jersey and have been consolidated with other class actions under the caption *In re Insurance Brokerage Antitrust Litigation*, a multidistrict litigation proceeding in that District. 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 includes causes of action under the Sherman Act, the Racketeer Influenced and Corrupt Organizations Act, state common law and the laws of the various states prohibiting antitrust violations. Plaintiffs seek monetary damages, including punitive damages and trebled damages, permanent injunctive relief, restitution, including disgorgement of profits, interest and costs, including attorneys' fees. On November 29, 2005, all defendants moved to dismiss the complaint for failure to state a claim. Oral arguments on the defendants' motion to dismiss were heard on July 26, 2006. On February 13, 2006, the named plaintiffs moved to certify a nationwide class consisting of all persons who between August 26, 1994 and the date of class certification engaged the services of a broker defendant (or related entity) in connection with the procurement or renewal of insurance and who entered into or renewed a contract of insurance with one or more of the insurer defendants, including the Company. One individual action naming various brokers and insurers, including several of the Company's affiliates, was filed in federal district court and is captioned *Delta Pride Catfish, Inc. v. Marsh USA, Inc., et al.* (D. Miss. Sept. 13, 2005). That action has also been transferred to the District of New Jersey and is being coordinated with *In re Insurance Brokerage Antitrust Litigation*. On January 17, 2006, all defendants moved to dismiss the complaint in *Delta Pride Catfish, Inc.* for failure to state a claim. Another individual action, *New Cingular Wireless Headquarters, LLC, et al. v. Marsh & McLennan Cos., Inc., et al.* (N.D. Ga. Apr. 4, 2006), was filed in federal court and asserts claims that are similar to those asserted in *In re Insurance Brokerage Antitrust Litigation* against various brokers and insurers, including the Company and certain of its affiliates. It has not yet been transferred to the District Court of New Jersey. One other putative class action, *Bensley Construction, Inc. v. Marsh & McLennan Companies, Inc., et al.* (Mass. Super. Ct. May 16, 2005), and one other individual action, *Office Depot, Inc. v. Marsh & McLennan Companies, Inc., et al.* (Fla. Cir. Ct. June 22, 2005), were filed in state court and assert claims that are similar to those asserted in *In re Insurance Brokerage Antitrust Litigation* against various brokers and insurers, including the Company and/or certain of its affiliates. On June 22, 2006, the plaintiffs in *Bensley Construction* voluntarily dismissed their action with prejudice. *Office Depot* was brought in Florida state court and names several of the Company's subsidiaries. On November 9, 2005, the court entered an order staying *Office Depot* pending resolution of *In re Insurance Brokerage Antitrust Litigation*. The plaintiff in *Office Depot* has appealed. The Company believes that these lawsuits have no merit and intends to defend vigorously.

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

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. 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 condition or liquidity.

Item 1A. RISK FACTORS

For a discussion of the Company's potential risks or uncertainties, please see Part I, Item 1A, of the Company's 2005 Annual Report on Form 10-K filed with the Securities and Exchange Commission. There have been no material changes to the risk factors disclosed in Part I, Item 1A, of the Company's 2005 Annual Report on Form 10-K.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The table below sets forth information regarding repurchases by the Company of its common stock during the periods indicated.

ISSUER PURCHASES OF EQUITY SECURITIES

Period Beginning	Period Ending	Total number of shares purchased		Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs		Maximum dollar value of shares that may yet be purchased under the plans or programs
April 1, 2006	April 30, 2006	15,105	$	42.31	−	$	−
May 1, 2006	May 31, 2006	3,513,486		44.63	3,468,900		1,845,200,738
June 1, 2006	June 30, 2006	2,172,377		43.97	2,169,435		1,749,815,788
Total		5,700,968	$	44.37	5,638,335	$	1,749,815,788

The Company repurchased 62,633 shares that were not part of the publicly announced share repurchase program, representing shares repurchased to cover payroll withholding taxes in connection with the vesting of restricted stock awards and exercises of stock options, and shares used to cover the exercise price of certain stock options that were exercised. The Company' s $2 billion share repurchase program, which has no expiration date, was approved and announced by the Company' s Board of Directors on May 2, 2006.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

See Exhibit Index.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, The St. Paul Travelers Companies, Inc. has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE ST. PAUL TRAVELERS COMPANIES, INC.
(Registrant)

Date: August 3, 2006 By /S/ BRUCE A. BACKBERG

Bruce A. Backberg
Senior Vice President
(Authorized Signatory)

Date: August 3, 2006 By /S/ DOUGLAS K. RUSSELL

Douglas K. Russell
Senior Vice President, Corporate Controller and Treasurer
(Principal Accounting Officer)

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
3.1	Amended and Restated Articles of Incorporation of The St. Paul Travelers Companies, Inc. (the Company), effective as of April 1, 2004, were filed as Exhibit 3.1 to the Company' s Form 8-K filed on April 1, 2004, and are incorporated herein by reference.
3.2	Amended and Restated Bylaws of the Company, effective as of February 7, 2006, were filed as Exhibit 3.2 to the Company' s Form 8-K filed on February 10, 2006, and are incorporated herein by reference.
10.1†	Assurance of Discontinuance with the Office of the Attorney General of the State of New York, the Office of the Attorney General of the State of Illinois and the Office of the Attorney General of the State of Connecticut.
10.2†	Stipulation with the New York State Department of Insurance.
12.1†	Statement regarding the computation of the ratio of earnings to fixed charges and the ratio of earnings to combined fixed charges and preferred stock dividends.
31.1†	Certification of Jay S. Fishman, Chairman and Chief Executive Officer of the Company, as required by Section 302 of the Sarbanes-Oxley Act of 2002.
31.2†	Certification of Jay S. Benet, Vice Chairman and Chief Financial Officer of the Company, as required by Section 302 of the Sarbanes-Oxley Act of 2002.
32.1†	Certification of Jay S. Fishman, Chairman and Chief Executive Officer of the Company, as required by Section 906 of the Sarbanes-Oxley Act of 2002.
32.2†	Certification of Jay S. Benet, Vice Chairman and Chief Financial Officer of the Company, as required by Section 906 of the Sarbanes-Oxley Act of 2002.

Copies of any of the exhibits referred to above will be furnished to security holders who make written request therefor to The St. Paul Travelers Companies, Inc., 385 Washington Street, Saint Paul, MN 55102, Attention: Corporate Secretary.

The total amount of securities authorized pursuant to any instrument defining rights of holders of long-term debt of the Company does not exceed 10% of the total assets of the Company and its consolidated subsidiaries. Therefore, the Company is not filing any instruments evidencing long-term debt. However, the Company will furnish copies of any such instrument to the Securities and Exchange Commission upon request.

† Filed herewith

X

In the Matter of
The St. Paul Travelers Companies, Inc.

X

ASSURANCE OF DISCONTINUANCE

Pursuant to the provisions of Executive Law § 63 (12), the Donnelly Act (Gen. Bus. Law § 340 et seq.), the Martin Act (Gen. Bus. Law § 352-c) and the common law of the State of New York, Eliot Spitzer, Attorney General of the State of New York caused an investigation to be made of The St. Paul Travelers Companies, Inc. and its subsidiaries ("St. Paul Travelers") relating to practices in the marketing, sale, renewal, placement or servicing of insurance and reinsurance and their accounting and public reporting practices, including those relating to nontraditional and finite reinsurance (the "Investigation"); and pursuant to Conn. Gen. Stat. § 35-24 et seq. (the Connecticut Antitrust Act) and Conn. Gen. Stat. § 42-110a et seq. (the Connecticut Unfair Trade Practices Act), Richard Blumenthal, Attorney General of the State of Connecticut, caused an investigation to be made of St. Paul Travelers on the subject matter of the Investigation; and pursuant to the Illinois Antitrust Act, 740 ILCS 10/1 et seq. and the Illinois Consumer Fraud and Deceptive Business Practices Act, 815 ILCS 505/1 et seq., Lisa Madigan, Attorney General of the State of Illinois, caused an investigation to be made of St. Paul Travelers on the subject matter of the Investigation (collectively the "Attorneys General Investigations"); and Howard Mills, the Superintendent of Insurance of the State of New York (the "Superintendent"), caused an investigation to be made of St. Paul Travelers on the subject matter of the Investigation (the "Superintendent' s Investigation"); and based upon the Attorneys General Investigations and the Superintendent' s Investigation the following findings have been made:

1. In April 2004, St. Paul Travelers was formed through the merger of The St. Paul Companies, Inc. ("St. Paul") and Travelers Property and Casualty ("Travelers"), two of the nation' s leading property casualty insurance companies. As most of the conduct in this Assurance refers to events prior to April 2004, the conduct of the individual, pre-merger companies will be specified.

2. Since at least the mid-1990s, St. Paul and Travelers and other insurers have paid hundreds of millions of dollars in so-called "contingent commissions" to insurance brokers and agents (collectively "Producers"(1)), including Marsh & McLennan Companies, Inc. or Marsh Inc. (collectively "Marsh"), Aon Corporation ("Aon"),Willis Group Holding Ltd. ("Willis"), Hilb Rogal & Hobbs Company ("HRH"), Arthur J. Gallagher & Co. ("Gallagher"), and Acordia, Inc. ("Acordia") as well as tens of thousands of smaller brokers and independent agents.

3. St. Paul and Travelers entered into a number of undisclosed contingent commission agreements (also known as "override" agreements) with Producers, such as Marsh, Aon, Willis, HRH, Gallagher, and Acordia. As a result of these arrangements, the Producers steered insurance policies to St. Paul and Travelers to give them new business and to keep retention levels (that is the percentage of customers who elect to keep their insurer when a policy comes up for renewal) of existing St. Paul and Travelers policies above certain benchmarks. Producers purported to offer unbiased recommendations to their clients about the selection of

(1) For purposes of this Agreement, "Producer" shall mean any insurance broker as that term is defined in § 2101(c) of the Insurance Law of the State of New York or any independent insurance agent as that term is defined in § 2101(b) of the Insurance Law of the State of New York and who offers insurance for a specific product or line from more than one insurer or affiliated group of insurers.

insurers when, in many cases, the Producers' recommendations were biased in favor of insurers who paid contingent commission.

Steering

4. Under these agreements, when a Producer steered new business or helped St. Paul or Travelers retain its existing business at renewal time, St. Paul or Travelers paid the Producer higher contingent commissions. Examples of these arrangements are set out below:

A. Acordia

5. In its promotional materials, Acordia maintains that "Acordia' s core values center around doing what is ethical and what is right for the customer." It boasts, "If it is right for the customer it is right for Acordia." Contravening these statements, Travelers and Acordia entered into a large number of contingent commission deals (at the local, regional and national levels) from the late 1990' s (if not earlier) to the present. As a result of these deals, Acordia agreed to "sweep more business to Travelers" and steered thousands of unsuspecting individuals and small businesses to Travelers in return for millions of dollars in contingent commissions.

6. For example, in 1999 Acordia initiated a "Millennium Partnership Program" in order to "leverage our major market [insurer] relationships in conjunction with our strategic initiative to electronically link ourselves to markets [insurers]." Acordia hoped that this program would generate millions of dollars from "Preferred Market Partners" over a three year period. The program was designed to consolidate insurance business with a very small number of Preferred Market Partners by giving them "the inside track for future business development." Travelers, along with four other insurers (Chubb, Hartford, Royal SunAlliance and Atlantic Mutual), entered into Millennium Partnership Agreements with Acordia. To "incent the proper

national and local commitment to the program," Travelers advanced Acordia $158,610 in early 2000. Travelers advanced $145,000 to Acordia in 2001, and $182,920 in 2002, giving Acordia a strong incentive to steer business to Travelers so that it could avoid repaying these advances. Acordia responded to this largesse by making sure that Travelers' business increased. Travelers was pleased with the results of the Millennium agreement and renewed it in 2003 under terms similar to the original deal. Acordia was pleased as well, noting that the Millennium project had generated nearly $7 million in added revenue, nearly 10% of which was from Travelers, in the first year and a half "with little, if any, associated expense."

7. The Millennium agreement most particularly affected two Travelers units: Travelers Personal Lines and Travelers Select, a Travelers unit specializing in the small commercial segment of the market (i.e., companies whose premiums are under approximately $10,000 per year). These Millennium Incentive Agreements generally provided a 1% override on top of the standard commission for all business written by Acordia with Travelers Select and most of the business written by Acordia with Travelers Personal Lines. Travelers Select paid Acordia the advances described above on these Incentive Agreements and Travelers Personal Lines paid Acordia an advance on its Incentive Agreement in 2000.

8. These Travelers Incentive Agreements went beyond this simple override and advance scheme. They also included either a "Growth Override" which could add hundreds of thousands of dollars of increased overrides if written premiums increased sufficiently, or a "Policy-In-Force Override" which could add up to 7% more commission if the number of policies in force with Travelers Select grew by more than 2,000 policies. As Travelers told Accordia, "Our Millenium [sic][Travelers Select] proposal is based on the belief that while our

relationship has been mutually beneficial, superior compensation demands outstanding performance." Acordia responded to these incentives by steering more business to Travelers, thereby earning a Growth Override under the Personal Lines Incentive Agreement of $278,297 and of $245,613 under the Travelers Select Incentive Agreements. As an April 2001 e-mail from its P/C Executive Marketing Group explained after meeting with Travelers to review the 2000 results, Acordia was "look[ing] forward to implementing plans to sweep more business to

Travelers . . . ." By February 2002, Acordia' s Chief Marketing Officer reported internally that it had increased written premiums with Travelers Select by 9%. In the Personal Lines, Acordia increased written premiums 14.3% in 2004 to earn a $235,000 Growth Override that year.

9. A feature of these Travelers Select agreements with Acordia was to offer Acordia the use of a Travelers Select Service Center for small commercial policies. By using the service center arrangement, Acordia allowed Travelers to answer all of its small commercial customers' various service-related calls, such as ones dealing with claims or premium payments. When an Acordia customer with a Travelers Select policy called Acordia with a question about a policy or claim, the customer would immediately be connected to the Travelers Service Center, which would answer the call as if it were an Acordia office.

10. Travelers misled these customers and convinced more than 90% of them to keep their policies with Travelers at renewal time. Travelers charged Acordia 2% of premiums for use of the service center, but offered to reduce this amount to 1%, or even waive it entirely, if Acordia swept at least 75% of this business into the Travelers Service Center. As an Acordia November 2003 email to Travelers summed up, the service center for small business was "essentially another consolidation play . . . ."

11. Travelers and Acordia also entered into special, one-off deals to steer whole books of business involving thousands of customers. For example, when Kemper Insurance Company' s rating was lowered by insurance credit rating organizations, Travelers Select quickly approached Acordia to propose that Acordia transfer Kemper' s entire book to Travelers. Travelers Select provided very significant incentives to Acordia to make sure this would happen, paying up to a 10% override if Acordia placed over 75% of the Kemper book with Travelers. Travelers even sent in "SWAT teams" to local Acordia offices to facilitate the transfer of Kemper business. Acordia told its brokers in a May 2003 email to its Managing Directors, entitled "Consolidation of Kemper Accounts," that this was a "great opportunity" and that "[t]his deal is ***in addition*** to the National [Contingent] Compensation agreement we have with Travelers and any local agreements you may have in place." (Emphasis in the original.)

B. HRH

12. HRH claims that it represents the best interest of its clients. For example, on its 2000 and 2001 web page HRH claimed, "we find or create the best products and services for your insurance needs, and we negotiate with insurers to secure the most favorable terms for you." Contrary to that claim, in 1997 HRH began negotiating a "Carrier Consolidation Initiative." The Carrier Consolidation Initiative was designed to "leverage" HRH' s ability to steer business into higher contingent commission payments for HRH.

13. HRH quickly focused its attention for the Carrier Consolidation Initiative on three insurers, Travelers, CNA and The Hartford. These companies became known as the "Big 3." The consolidation effort was sometimes referred to as "de-marketing."

14. In July of 1998, an HRH team flew to Connecticut to negotiate the terms of the

consolidation agreement with the president and other executives of Travelers. In these discussions, Travelers insisted that the number of insurance companies that benefitted from the arrangement be kept small and the terms strictly confidential. A Travelers senior vice president wrote to HRH: "I am pleased to share our expression of interest to build a strategic partnership. I have summarized below the key items from our perspective: . . . . Travelers & HRH agree terms and conditions will be handled with **ABSOLUTE CONFIDENTIALITY** . .. . . HRH will limit participation to a maximum of 3 national carriers with 'similar' programs." (Emphasis in original). The senior vice president then ended his letter, saying that "we look forward to building on our already strong relationship. These terms and conditions assume a similarity of intent with the strategic partners."

15. Once the agreements were signed, HRH began systematically to identify customers whose business could be switched to Travelers and the other selected insurers. Sales representatives from the "Big 3" visited each HRH office to help smooth implementation of the plan and determine which non-preferred insurers' books of business would be "book rolled" wholesale to one of the Big 3 carriers. Travelers even dedicated a full time employee whose job was to "consolidate" HRH's small business insurance customers with Travelers. HRH told its clients, "We . . . are confident that it is in your best interest" to move to one of the Big 3 carriers but never disclosed its own financial motives for the switch.

16. As part of the "book roll" process, Travelers sometimes increased their new customers' premiums by as much as 10%. As in the case of Acordia, HRH customers that were steered to Travelers insurance had their policies administered by the Travelers Select Customer Service Center in Elmira, New York. HRH customers did not know their account had been sent

to the service center until they received a "Welcome Letter" from HRH, on HRH letterhead, telling them about "our Customer Service Center." As with Acordia, if an HRH customer called the service center, the service representatives were instructed to answer the phone simply "customer service," without indicating that the center was actually owned and operated by Travelers and staffed with Travelers employees. Thus, if customers called with a question or concern about their insurance, they would not be speaking with their so-called independent insurance agent, but with a Travelers employee.

17. The plan paid high dividends to both HRH and Travelers. An August 1999 HRH memo describing the success of the program at increasing the premium volume with Travelers proclaimed "a positive 8.5% growth 1999 YTD vs. 1998 and our retention ratio is 84.1%." Such a high retention and growth rate was highly profitable to HRH because Travelers was paying HRH a 3.5% override on all policies steered to Travelers and 5% for all new policies.

18. Travelers was happy with the "consolidation plan." As one Traveler's executive wrote, "The HRH-Travelers strategic partnership has been very successful. You have demonstrated an acute ability to initiate and execute a business plan that has produced tremendous results." In recognition of these "tremendous results," Travelers gave HRH's Connecticut office an advance $25,000 "good faith" payment in anticipation of HRH successfully steering clients in 2000. All told, Travelers received some $580 million in premium through HRH during operation of the Big 3 arrangement and more than doubled its annual premium volume with HRH.

19. Additionally, in the "Select" market, i.e. insurance for small businesses, Travelers' participation in the Big 3 arrangement with HRH amounted to a customer allocation

scheme. HRH, Travelers and the other Big 3 carriers agreed that in return for hidden contingent commissions to HRH, the Big 3 carriers would split among themselves more than 80% of HRH's Select commercial accounts nationwide. Travelers understood that no Select accounts would be switched from one carrier to another and that HRH offered available books of business to only one Big 3 carrier at a time. Only if the chosen carrier chose not to take a large enough share of the book would the business be offered to another Big 3 carrier. Travelers knew who the other members of the "Big 3" were, and all three agreed not to compete for available books of business on the basis of commission paid to HRH. Indeed, one Travelers vice president wrote that: "to ensure a level playing field, each carrier partner agreed to the same financial program."

20. The steering relationship continued to yield high profits for Travelers and continued unabated until the end of 2004, when HRH terminated the arrangement in response to the Attorneys General and Superintendent's investigations.

C. Gallagher

21. Gallagher also steered business to St. Paul and Travelers in exchange for undisclosed contingent commissions. In December 2003, a senior Gallagher executive sent an email to all branch and regional managers urging them to "pump" business into seven favored insurers, including St. Paul and Travelers:

> With year-end approaching, it is our last chance to pump additional premium volume into these markets so that it is included in the 2003 contingent income calculation. Some of the more lucrative incentive programs are in place with these companies
>
> 1. Crum & Forster (National)
> 2. Hartford (National)
> **3. St. Paul** (Local)
> 4. CNA (Local)

> 5. Chubb (Local)
> 6.**Travelers** (Local)
> 7. Wausau (National)
>
> Any opportunity which you or your staff have to support these markets, either through renewal retention or new business, will help generate additional revenue for [Gallagher].

D. Willis

22. Willis also made systematic efforts to steer business to St. Paul. A September 2003 internal report at Willis stated, "Marketing centers are reviewing contingent, bonus and override plans to maximize all agreements during the fourth quarter. Special attention is being given to St. Paul, Chubb, Liberty Mutual, Hartford and Crum & Forster due to special [contingent commission] agreements." The following month, Willis put together a revenue growth strategy focused on contingent commissions. One of the "Key Objectives" in the strategy was to "[m]aximize premium volume flow to key carriers with the most attractive contingent income agreements." The strategy was implemented through emails and other communications from senior management exhorting Willis personnel: "Don' t forget the advantages of placing as much business as possible with the carriers we have negotiated special deals with, as you look for ways to maximize revenues the last few months of this year and into 2004." And a November 3, 2003 email from a senior Willis executive directed subordinates to "feed our biggest contingency players, Hartford, **St. Paul**, Chubb and Liberty Mutual." (Emphasis supplied.)

Reinsurance Tying

23. Travelers engaged in other improper activities to ensure that brokers steered their customers to Travelers. This included tying the use of a broker for reinsurance placements to the placement of the retail insurance with Travelers. For example, in 2001 Travelers Bond

business unit communicated to Aon Re that it was considering moving its reinsurance brokerage business to Guy Carpenter, Aon Re' s competitor. In response, Aon Re offered a strategic partnership under which it would increase Aon' s placement of retail business to Travelers Bond if Aon Re maintained the reinsurance brokerage business.

24. In a series of meetings with Travelers, executives at Aon stated that if Travelers continued to use Aon Re, Aon would commit to increasing its retail placements with Travelers. These meetings were followed by a formal offer sent from Aon to the CEO and CFO of Travelers Bond business unit, providing that if Travelers maintained the reinsurance relationship, Aon would pay Travelers up to $1.5 million and that Aon could eliminate or "claw back" Aon' s payment if it increased its retail business to Travelers. Ultimately, although on slightly different terms, a clawback agreement was entered into by the parties. Aon' s retail clients were never informed of any clawback agreement or Aon' s incentives to steer retail business to Travelers Bond.

Excess Casualty Bid Rigging

25. St. Paul also agreed to join other insurers and Marsh in rigging the process of bidding for excess casualty insurance policies. Among insurance lines, excess casualty policies typically had the highest rates of contingent commissions, and therefore, were the most profitable to Producers. For example, in the 2002 placement service agreement between St. Paul and Marsh in base and contingent commissions and relating to excess casualty, St. Paul agreed to pay Marsh an aggregate percentage of gross written premium that varied from a minimum of 10% for the first $1 of premium to 17.5% for any amount over $55 million dollars of premium.

26. St. Paul participated in the scheme in two ways: (1) where St. Paul was the

incumbent on the lead layer of business, Marsh generally sought to "protect" St. Paul' s incumbency and gave St. Paul an unfair competitive advantage by seeking out non-competitive bids from other insurers; and (2) where St. Paul was not the incumbent on the lead layer, St. Paul agreed to provide quotes to protect the incumbent, with the understanding that St. Paul would receive business on an excess layer without competition, thereby allowing it to enter the market.[2] These practices were to the detriment of the insured, whose best interests Marsh was supposed to be serving.

27. The details of the scheme were as follows. When St. Paul was the incumbent carrier on a layer, or was otherwise chosen by Marsh to win a client' s excess layer business, Marsh set a target for St. Paul that included proposed premium and policy terms for St. Paul' s bid. If St. Paul met this target, Marsh generally arranged for St. Paul to win the business, regardless of whether St. Paul, or any other insurance company, could have quoted better terms for the client.

28. In order to control the market, Marsh instructed other insurance companies to provide intentionally losing bids that were inferior to those provided by the incumbent or its chosen winner for the excess layer. These losing quotes were known, among other things, as "fake," "backup," "supportive," "alternative leads" or "protective quotes." They were also known as "B Quotes" or simply "B' s." After securing such quotes, Marsh would present them to clients as bids obtained through a competitive process. This pretense of competition was

(2) Excess casualty insurance is typically sold in multiple layers of coverage over and above the insured' s primary casualty policy with several different insurers each covering a layer. For example, Insurer A' s primary policy provides coverage up to $10 million; Insurer B provides the first layer excess coverage from $10 million to $25 million; and Insurer C covers the next layer from $25 to $50 million.

intended to, and did, give clients the impression that St. Paul' s bid was the best available. It also had the effect of directing business to St. Paul, not on terms best for the client, but rather on terms advantageous to St. Paul. Certain employees of St. Paul were aware of this arrangement and of the "B Quotes" supplied by other insurers.

29. The arrangement with Marsh allowed St. Paul to sharply increase the premiums directed to it by Marsh. For example in 2001, St. Paul received only $22 million in excess casualty premium in the United States from Marsh. This number increased in 2002 to $63 million, $98 million in 2003 and $108 million in 2004. Set forth below are specific examples of St. Paul' s participation in the bidrigging scheme:

a. In or about June of 2003, Client A sought competitive bids for its excess casualty coverage on which St. Paul was the incumbent. An internal Marsh e-mail stated, "Risk Manager has said that she wants to see options other than the incumbent." Despite the wishes of the Client, Marsh had no intention of opening St. Paul to competition. St. Paul, with Marsh' s blessing, proposed raising the premiums of the policy over 40% in its bid from the year before. Marsh, to convince its client that this increase was justified, reached out to Zurich and ACE to provide higher non-competitive bids. As a Marsh executive wrote to Zurich:

> I need a protective quote.
>
> Please email me indicating [sic] you would need a 2mm per occurrence, and make your premium for [the layer] unattractive, St. Paul is the incumbent and they offered [the layer for] $351,000 (GL 1/2/2 AL 2). Also make the terrorism surcharge in addition to this premium.

Both Zurich and ACE responded to Marsh' s request with quotes that were higher than St. Paul' s bid.

b. In or about July of 2003, Client B sought to renew its excess casualty coverage and asked Marsh to solicit competitive bids. Marsh' s broking plan dictated that St. Paul was to receive the coverage for the lead layer at a premium of $200,000. Once St. Paul hit that target in its bid, Marsh sought protective B Quotes. An internal Marsh e-mail stated: "I am going to need a B quote from ACE .. . . so I can get CA [the Marsh client advisor] off my back. In fact, please have ACE Excess release a quote for [the lead layer]." This was followed by an e-mail from Marsh to the ACE underwriter, which stated:

> St. Paul quoted a lead . . . (same attachments as expiring) and hit target of $200,000. I rated up the program and came to approx. $460,000 for a lead . . . . [giving ACE an indication of what to bid]
>
> Can you please provide us with a back-up indication at your soonest. Should you need any additional information, please advise. I await your indication.

Later that same day, ACE responded by stating that its price would be about $450,000 or more than double St. Paul' s price. St. Paul received the coverage.

c. In or about November of 2001, Client C sought excess casualty coverage. In the past, it had placed its coverage directly, without using a broker. However, for the 2002 year it hired Marsh. Rather than allow the market

to compete for the new coverage, Marsh set a broking plan that called for Zurich to receive the coverage. The broking plan stated that "we will need to do a Type B on this to MANY markets for this client. Therefore submissions to **MARP [Munich American Risk Partners], Chubb, Kemper, St. Paul, Liberty [Mutual], AIG**." (Emphasis in original). Shortly after the broking plan was determined, Zurich met the target and Marsh went about getting "B Quotes" to make Zurich appear to be the winner of a bona-fide competition. On December 18, 2001 a Marsh executive wrote to St. Paul and stated:

> Specs were forwarded in November for [Client C]. Zurich' s renewal quote is $175,000 for [the lead excess layer]. Primary AL is $2MM.

> Josh is asking for non-quotes. If you didn' t already respond to [the Marsh executive] . . ., please feel free either to decline for class or quote higher (please).

The next day St. Paul responded by issuing a quote 30% higher than Zurich' s bid.

d. In or about October of 2003, Client D was looking to rebid its excess casualty insurance and asked Marsh to solicit competitive bids. Marsh' s broking plan called for Zurich, the incumbent, to receive the renewal at a premium of $176,000 for $50 million of coverage and for St. Paul to receive one of the excess layers. Once Zurich matched the $176,000 target, Marsh devised a plan whereby St. Paul would bid an unattractive amount on only $25 million of coverage, thereby allowing Marsh to steer

the client to Zurich. To enact this plan, a Marsh broker forwarded the

following internal e-mail to a St. Paul underwriter:

> Enclosed is a copy of Zurich' s renewal quote for the lead $50m. They have hit our target of $176,000 for renewal. . . . St. Paul is also in the broking plan for an alternate lead. Since Zurich will be OK on the renewal, please send me an email confirming that St.Paul' s lead for $25m would be at least $125,000.

St. Paul responded, as requested, in an email stating "Our Lead $25,000,000 . . . will be at least $125,000." Once it had the manufactured St. Paul quote, Marsh wrote to its client:

> St. Paul provided an indication for the $25 million lead of $125,000. To complete the $50 million ($25 million excess of $25 million) as an alternative to the Zurich $50 million lead quote, the indications that were obtained from several insurer . . . were at least $70,000. Therefore, the premium would be at least $195,000 for the $50 million structured on this basis in comparison to the Zurich lead $50 million quote of $176,000.

The client, having been deceived by Marsh and the insurance companies, awarded the contract to Zurich.

Finite Reinsurance

30. St. Paul also used non-traditional and finite reinsurance to improperly enhance both its own earnings and those of its clients. In a series of contracts, St. Paul entered into reinsurance agreements that appeared to contain enough risk to be accounted for as legitimate reinsurance. Unknown to its auditors, however, St. Paul entered into "understandings" outside of the written contracts that specified that neither side would lose or profit beyond an agreed-upon margin, with any gains or losses to be made up in subsequent years. In this way, neither side had any real risk. The following is an example of this type of conduct by St. Paul:

31. Over a number of years, St. Paul entered into a series of reinsurance contracts with various reinsurance companies through its agent, a reinsurance brokerage firm. Outside of these contracts, St. Paul reached an "understanding," through its agent but approved by St. Paul, that various reinsurers would achieve a set level of return and if that level was not achieved, any difference would be made up through future contracts. For example, in the years 1999 through 2002, St. Paul, through its agent, entered into aggregate excess of loss reinsurance contracts with Underwriters Reinsurance Company (Barbados). During the discussions for the 2001 renewal, its reinsurance broker, acting on behalf of St. Paul, made clear that, despite the wording of the reinsurance contract between the parties, any losses suffered by Underwriters Re

would be made up by St. Paul. In a letter dated December 22, 2000, a Senior Vice President at its reinsurance broker wrote to Underwriters Re:

> St. Paul Re intends to alleviate the loss position on the 1999 contract by using excess funding, if any, on the 2000 contract and any future contract not commuted. . . . It is St. Paul Re' s intention to commute the 1999 year before the 2000 year is commuted. To the extent that the 1999 year suffers an economic loss, then St. Paul Re would forfeit that portion of its excess funding refund, that would be due at the time of commutation under the 2000 contract.

32. Two years later, the parties were again discussing how to deal with losses in the contract. An Underwriters Re executive wrote to St. Paul' s reinsurance broker and quoted from the December 22, 2000 letter. She then wrote:

> Based upon this framework of understanding and based upon recent discussions with ... [St. Paul' s reinsurance broker] and SPRE [St. Paul Re], it is our understanding that any excess funding in the 2001 Agg XL contract will be used to alleviate any loss positions on the 1999 and 2000 contracts. To this end, SPRE will hold the 2001 contract

> open until 2015.

33. The letter was then sent to the Chief Operating Officer of St. Paul Re who signed the letter agreeing to its content. St. Paul' s auditors were never informed of this side agreement.

34. Based on these findings, the Attorneys General and the Superintendent allege that St. Paul Travelers unlawfully deceived policyholders, regulators and other authorities and shareholders by: (a) participating in schemes to steer business and allocate customers; (b) participating in rigging of bids for excess casualty insurance through Marsh; and (c) improperly using reinsurance transactions to bolster the quality, quantity and stability of their clients' and St. Paul' s earnings.

35. St. Paul Travelers has been and is continuing to cooperate with the Attorneys General Investigations and the Superintendent' s Investigation.

36. In the wake of the issuance of the subpoenas and the Attorneys General Investigations and the Superintendent' s Investigation, St. Paul Travelers has adopted and, under this Assurance of Discontinuance (the "Assurance") and corresponding Stipulation with the Superintendent (the "Stipulation"), will continue to implement a number of business reforms governing the conduct of employees of St. Paul Travelers.

37. By entering into this Assurance, the Attorneys General resolve all issues uncovered to date (with the exception of those areas noted below) in the Attorneys General Investigations.

38. The Attorneys General find the relief and agreements contained in this Assurance appropriate and in the public interest. The Attorney General of New York is willing to accept this Assurance pursuant to Executive Law § 63(15), in lieu of commencing a statutory

proceeding. The Attorney General of Connecticut is willing to accept the Assurance in lieu of commencing a statutory proceeding under Conn. Gen. Stat. §§ 35-32, 42-110m and 33-1335. The Attorney General of Illinois is willing to accept the Assurance in lieu of commencing a statutory proceeding under 740 ILCS 10/1 et seq. and 815 ILCS 505/1 et seq.

39. The Superintendent and St. Paul Travelers will, simultaneously with the signing of the Assurance, enter into a Stipulation to resolve all issues uncovered to date in the Superintendent' s Investigation.

40. This Assurance is entered into solely for the purpose of resolving the Attorneys General Investigations, and is not intended to be used for any other purpose.

41. Without admitting or denying any of the above allegations, St. Paul Travelers is entering into this Assurance and the Stipulation.

42. Nothing herein shall be construed to apply to any business or operations involving group and individual: (1) fixed and variable life insurance, (2) fixed and variable, immediate and deferred annuities, (3) accidental death and dismemberment insurance, (4) short and long term disability insurance, (5) long term care insurance, (6) accident and health insurance, including vision and dental insurance, (7) credit insurance, (8) involuntary unemployment insurance, (9) guaranteed investment contracts, and (10) funding agreements (collectively "St. Paul Travelers' Life Insurance Operations").

NOW THEREFORE, the Attorneys General and St. Paul Travelers hereby enter into this Assurance with a statement of apology attached as Exhibit 1, and agree as follows:

Bid Rigging – Excess Casualty Policyholders

1. On or before September 7, 2006, St. Paul Travelers shall pay $37 million into a fund (the "Excess Casualty Fund") held by St. Paul Travelers to be paid to St. Paul Travelers' policyholders who purchased or renewed St. Paul Travelers' excess casualty policies, excluding excess workers compensation policies, through Marsh during the period from January 1, 2000 through September 30, 2004 (the "Eligible Policyholders"). All of the money paid into the Excess Casualty Fund and any investment or interest income earned thereon shall be paid to Eligible Policyholders pursuant to this Assurance. No portion of the Excess Casualty Fund shall be considered a fine or a penalty.

2. The Excess Casualty Fund shall be invested in a designated money market fund subject to the prior approval of the Attorneys General and the Superintendent.

3. St. Paul Travelers shall (a) by November 8, 2006 calculate the amount of money each of the Eligible Policyholders paid for excess casualty insurance placed by St. Paul Travelers through Marsh with inception or renewal dates during the period from January 1, 2000 through September 30, 2004 (the "Eligible Policies"); (b) within ten days of completing these calculations, file a report with the Attorneys General and the Superintendent, certified by an officer of St. Paul Travelers, setting forth: (i) each Eligible Policyholder' s name and address; (ii) the Eligible Policyholder' s Eligible Policy(ies) purchased or renewed and policy number(s); (iii) the amount the Eligible Policyholder paid in premiums for each such policy; and (iv) the amount each policyholder is eligible to receive which shall equal each policyholder' s pro rata share of the Excess Casualty Fund as calculated by multiplying the amount in the Excess Casualty Fund by

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the ratio of the policyholder' s gross written premium for Eligible Policies for the period from January 1, 2000 through September 30, 2004, divided by the total gross written premium for all Eligible Policies; and (c) by November 22, 2006, send a notice to each Eligible Policyholder, setting forth items (ii) through (iv), above, and stating that the amount paid may increase if there is less than full participation by Eligible Policyholders in the Excess Casualty Fund (the "Excess Notice"). The form of the Excess Notice shall be subject to the prior approval of the Attorneys General and Superintendent.

4. Eligible Policyholders who receive an Excess Notice and who voluntarily elect to receive a cash distribution (the "Participating Policyholders") shall tender a release in the form attached hereto as Exhibit 2 on or before April 23, 2007.

5. On or before June 4, 2007, St. Paul Travelers shall pay each Participating Policyholder the amount that that Participating Policyholder is eligible to receive from the Excess Casualty Fund as set forth in paragraph 3(b)(iv) above, and any interest or investment income earned thereon.

6. On or before July 2, 2007, St. Paul Travelers shall file an interim report with the Attorneys General and the Superintendent, certified by an officer of St. Paul Travelers, listing all amounts paid from the Excess Casualty Fund.

7. In the event that any Eligible Policyholder elects not to participate or otherwise does not respond to the Excess Notice (the "Non-Participating Policyholders"), the amount that such policyholder was eligible to receive from the Excess Casualty Fund as set forth in paragraph 3(b)(iv) may be used by St. Paul Travelers to satisfy any pending or other claims asserted by

policyholders relating to the excess casualty bid rigging or excess casualty steering allegations set forth in this Assurance, provided that in no event shall a distribution be made from the Excess Casualty Fund to any other policyholder until all Participating Policyholders have been paid the full aggregate amount set forth in paragraph 3(b)(iv) above, and any interest or investment income earned thereon; nor shall the total payments from the Excess Casualty Fund to any Non-Participating Policyholder exceed 80% of the amount that Non-Participating Policyholder was originally eligible to receive as set forth in paragraph 3(b)(iv).

8. If any money remains in the Excess Casualty Fund as of April 2, 2008 any such funds shall be distributed by May 2, 2008 on a pro rata basis to the Participating Policyholders.

9. In no event shall any of the money in the Excess Casualty Fund or the investment or interest income earned thereon be used to pay or considered in the calculation of attorneys fees.

10. In no event shall any of the money in the Excess Casualty Fund or the investment or interest income earned thereon be used to pay or considered in the calculation of commissions, administrative or other fees to St. Paul Travelers.

11. On or before May 15, 2008, St. Paul Travelers shall file a report with the Attorneys General and the Superintendent, certified by an officer of St. Paul Travelers, listing all amounts paid from the Excess Casualty Fund, including any payments subsequent to the payments described in paragraph 6.

MONETARY FINE, PENALTY AND PAYMENT

12. On or before September 7, 2006 St. Paul Travelers shall pay $40 million as a fine or penalty of which a $24 million fine will be paid by wire transfer to the State of New York, a $8 million payment will be made in accordance with 815 ILCS 505/7(d) by wire transfer to the State of Illinois and a $8 million penalty will be paid by wire transfer to the State of Connecticut. Each Attorney General and the Superintendent shall provide issuing instructions with respect to the payments. These fines, payments and penalties are imposed for all of the improper conduct described in this Assurance and the Stipulation.

BUSINESS REFORMS

13. Within 60 days of the date of this Assurance (or such other date as specified below), St. Paul Travelers shall undertake the following business reforms. St. Paul Travelers will not undertake any transaction for the purpose of circumventing the prohibitions contained in this Assurance.

14. For purposes of this Assurance, Compensation shall mean anything of material value given to a Producer including, but not limited to, money, credits, loans, forgiveness of principal or interest, vacations, prizes, gifts or the payment of employee salaries or expenses, provided that Compensation shall not mean customary, non-excessive meals and entertainment expenses. St. Paul Travelers shall develop and implement policies for its employees explaining the provisions of this paragraph as part of the standards described in paragraph 29 below. Prior to January 7, 2007, St. Paul Travelers shall submit to the Attorneys General and the Superintendent a draft of the intended policies.

15. For purposes of this Assurance, Contingent Compensation is any Compensation contingent upon any Producer: (a) placing a particular number of policies or dollar value of premium with St. Paul Travelers; (b) achieving a particular level of growth in the number of policies placed or dollar value of premium with St. Paul Travelers; (c) meeting a particular rate of retention or renewal of policies in force with St. Paul Travelers; (d) placing or keeping sufficient insurance business with St. Paul Travelers to achieve a particular loss ratio or any other measure of profitability; (e) providing preferential treatment to St. Paul Travelers in the placement process, including but not limited to giving St. Paul Travelers last looks, first looks, rights of first refusal, or limiting the number of quotes sought from insurers for insurance placement; or (f) obtaining anything else of material value for St. Paul Travelers. This definition does not include Compensation paid to employees of St. Paul Travelers or to their Producers that are captive or are exclusive to St. Paul Travelers with respect to a specific line or product that is clearly and conspicuously identified in marketing materials as St. Paul Travelers' line or product.

16. **Compensation Disclosure.** Beginning six months from the date of this Assurance, St. Paul Travelers' offices, situated and issuing insurance policies in the United States or its territories, shall send a notice accompanying the insured' s policy, stating that the insured can review and obtain information relating to St. Paul Travelers' practices and policies regarding Compensation on either a website or from a toll-free telephone number. The information on the website or available through the toll-free number shall be sufficient to inform insureds of the nature and range of Compensation, by insurance product, paid by St. Paul Travelers. No later than four months from the date of this Assurance, St. Paul Travelers shall submit to the Attorneys

General the proposed format and content of the notice, website and the information available via the toll-free telephone number described in this paragraph. The form and content of the notice, website and information available via the toll-free telephone number shall be subject to the prior approval of the Attorneys General. St. Paul Travelers shall commence posting the website and operation of the toll-free telephone number no later than six months after the date of this Assurance.

17. **Prohibition on Contingent Compensation for Excess Casualty.** During the period of 2006 through and including 2008, St. Paul Travelers' offices situated and issuing policies in the United States shall not pay any Producer Contingent Compensation relating to the placement of any excess casualty insurance policy. In addition, St. Paul Travelers commits that its offices situated and issuing policies outside the United States shall not pay any Producer Contingent Compensation relating to the placement of any excess casualty insurance policy issued or renewed to any insured domiciled in the United States, which policy is principally associated with covering property or operations situated in the United States. Subsequent to 2008, excess casualty insurance shall be subject to the provisions of paragraph 23.

18. St. Paul Travelers shall undertake the business reforms set forth in paragraphs 1925 for any offices situated and issuing policies in the United States or its territories.

19. Except as set forth in paragraphs 23-25 below, in connection with its issuance, renewal or servicing of insurance policies through a Producer, St. Paul Travelers shall pay as Compensation only a specific dollar amount or percentage commission on the premium set at the time of each purchase, renewal, placement or servicing of a particular insurance policy.

20. **Prohibition on Pay-to-Play.** St. Paul Travelers shall not offer to pay or pay, directly or indirectly, any Producer any Compensation in connection with the Producer' s solicitation of bids for the Producer' s clients.

21. **Prohibition on Bid Rigging.** St. Paul Travelers shall not directly or indirectly knowingly offer or provide to any Producer any false, fictitious, artificial, 'B' or "throw away" quote or indication. Nothing herein shall preclude St. Paul Travelers from offering to provide or providing any bona fide quote or indication.

22. **Prohibition on Leveraging.** St. Paul Travelers shall not make any promise or commitment to use any Producer' s brokerage, agency, producing or consulting services, including reinsurance brokerage, agency or producing services, contingent upon any of the factors listed in paragraph 15(a) - (f) above.

23. **Additional Limitations on Contingent Compensation.** Within 30 days of receipt of a notice from any of the Attorneys General that the Attorneys General have made a determination, based on market share information available from the National Association of Insurance Commissioners ("NAIC") or A.M. Best Company (or another agreed upon third-party source of market share data if such data is not available from NAIC or A.M. Best for a given insurance line (or product/segment)), that (a) insurers who do not pay Contingent Compensation in a given insurance line (or product/segment) including but not limited to direct writers and insurers that employ only captive agents in the given insurance line (or product/segment) and (b) insurers who have signed Agreements or Assurances with the Attorney General of New York or agreements with other Attorneys General containing this paragraph as applied to them, together

represent more than 65% of the national gross written premiums in the given insurance line (or product/segment) in the calendar year for which market share data is most recently available (the "Notice"), St. Paul Travelers shall stop paying Contingent Compensation for such insurance line (or product/segment) beginning on January 1 of the next calendar year following the date of the Notice. If, in any given calendar year after the date of the Notice described above, the market share used in the Notice falls below 60%, St. Paul Travelers shall notify the Attorneys General of the change. If, within 60 days, the Attorneys General do not object to St. Paul Travelers' determination that the market share used in the Notice is below 60%, any prohibition on Contingent Compensation described in the Notice shall cease. If any of the Attorneys General do object to St. Paul Travelers' determination, the Attorneys General shall set forth the reasons for such objections in a written notice to St. Paul Travelers within 60 days of St. Paul Travelers' notification to the Attorneys General. Resort to court action to resolve a dispute related to the determination of market share or the determination that a given insurer does not pay Contingent Compensation under this paragraph shall not be deemed a violation of this Assurance.

24. Except as provided in paragraph 17, in any insurance line or product in which St. Paul Travelers paid Contingent Compensation for the 2004 calendar year or any part thereof, St. Paul Travelers may continue to pay Contingent Compensation until the receipt of a Notice from the Attorneys General that the conditions described in paragraph 23 above have been met. Following receipt of a Notice, St. Paul Travelers may continue to pay any Contingent Compensation accrued or accruing until the end of the calendar year. In no event shall any provisions in paragraphs 23, 24 and 25 be construed to require St. Paul Travelers to take any action that would cause St. Paul Travelers to be in breach of an agreement that is in force as

of the date of this Assurance.

25. St. Paul Travelers agrees not to commence the paying of Contingent Compensation in any insurance line (or product/segment) in which it did not pay Contingent Compensation for the 2004 calendar year or any part thereof and where the Attorneys General have sent a

Notice pursuant to paragraph 24 above. In the event that St. Paul Travelers intends to enter into any agreement potentially obligating it to make Contingent Compensation payments for any insurance line (or product/segment) in which it did not pay Contingent Compensation for the 2004 calendar year or any part thereof, St. Paul Travelers agrees to give the Attorneys General written notice and a copy of the intended agreement at least 60 days prior to the execution of any such agreement.

26. **Controls on "Book Rolls."** St. Paul Travelers shall not enter any agreement or arrangement to transfer 25 or more insurance policies from an insurer unless the agreement or arrangement provides for giving written notice to affected insureds of (a) the reason for the transfer of the policy, including any Compensation paid to the Producer related to the transfer; and (b) a statement that the insured can review and obtain information relating to St. Paul Travelers' practices and policies regarding Compensation on either a website or from a toll-free telephone number.

27. **Controls on Service Centers**. Persons communicating on behalf of St. Paul Travelers with any consumer and/or insured participating in any St. Paul Travelers sponsored or affiliated service center must immediately and clearly identify themselves to the consumer and/or insured as representing St. Paul Travelers.

28. **Controls on Finite and Non-traditional Reinsurance**. St. Paul Travelers commits that St. Paul Travelers will enact policies and procedures satisfactory to the Attorneys General and the Superintendent to prevent transactions designed solely to manipulate accounting results, transactions involving insufficient risk transfer created for purposes of improperly qualifying such transactions for reinsurance accounting, and transactions that contain undisclosed side agreements.

29. **Standards of Conduct and Training.** St. Paul Travelers shall implement written standards of conduct regarding Compensation paid to Producers, consistent with the terms of this Assurance, subject to approval of the Attorneys General and Superintendent, which implementation shall include, *inter alia*, appropriate training of relevant employees, including but not limited to training in business ethics, professional obligations, conflicts of interest, antitrust and trade practices compliance, and record keeping. St. Paul Travelers commits that its insurance subsidiaries doing business outside of the United States directly or through professional intermediaries, with United States resident insureds for policies principally associated with property or operations situated in the United States, will conform their conduct to the requirements of the Assurance and Stipulation.

30. St. Paul Travelers agrees to support legislation and regulations in the United States to abolish Contingent Compensation for insurance products or lines. St. Paul Travelers further agrees to support legislation and regulations in the United States requiring greater disclosure of Compensation.

31. St. Paul Travelers shall not engage or attempt to engage in violations of New York

State Executive Law § 63(12), New York State' s Donnelly Act (Gen. Bus. Law § 340 et seq.), New York State' s Martin Act (Gen. Bus. Law § 352-c), New York Insurance Law, Connecticut' s Antitrust Act, Conn. Gen. Stat. § 35-24 et seq; Connecticut' s Unfair Trade Practices Act, § 42-110a et seq. and Connecticut' s laws relating to corporate accountability, § 33-1335 and the Illinois Antitrust Act, 740 ILCS 10/1 et seq. and the Illinois Consumer Fraud and Deceptive Business Practices Act, 815 ILCS 505/1 et seq.

REINSURANCE REPORTING OBLIGATIONS

32. For a period of five years beginning November 6, 2006, St. Paul Travelers will provide annually by May 1 of each year to the Superintendent a report, in a format approved by the Superintendent, that includes:

a. A review of ceded and assumed reinsurance of the property/casualty insurance subsidiaries of St. Paul Travelers required to file statutory financial statements on the NAIC blanks (the "Property/Casualty Insurers") verifying that all contracts comply with SSAP 62 and 75 and the new NAIC disclosure and attestation requirements including the attestation that with respect to all reinsurance contracts for which the reporting entity is taking credit on its current financial statements, to the best of St. Paul Travelers' knowledge and belief, after diligent inquiry and unless noted as an exception under the attestation requirement:

i. Consistent with SSAP 62, there are no separate written or oral agreements between the reporting entity (or its affiliates or

companies it controls) and the assuming reinsurer that would under any circumstances, reduce, limit, mitigate or otherwise affect any actual or potential loss to the parties under the reinsurance contract, other than inuring contracts that are explicitly defined in the reinsurance contract except as disclosed;

ii. For each such reinsurance contract entered into, renewed or amended on or after January 1, 1994, for which risk transfer is not reasonably considered to be self-evident, documentation concerning the economic intent of the transaction and the risk transfer analysis evidencing the proper accounting treatment, as required by SSAP 62 and 75, is available for review;

iii. The reporting entity complies with all the requirements set forth in SSAP 62 and 75, and any supporting documentation is available for review;

iv. The reporting entity has appropriate controls in place to monitor the use of reinsurance and adhere to the provisions of SSAP 62 and 75.

b. A list of all its affiliated insurers, categorized by domicile, whether controlled through ownership or otherwise under the Insurance Law. The list shall include the percentage of ownership or other means by which St. Paul Travelers controls the affiliated insurer.

c. A list of its ownership of five percent or more of the voting shares of any non-affiliated insurer entities.

d. A list of non-affiliated insurers to whom St. Paul Travelers' Property/Casualty Insurers have ceded business during the preceding calendar year either directly, or through retrocession agreements if known, excluding those captive reinsurance entities that do not accept third party business, where the business ceded represents fifty percent or more of the entire direct and assumed premium written by insurer, based upon such insurer' s most recent publicly available financial statements.

Such report shall be certified by the Chief Reinsurance Officer and the Chief Executive Officer of St. Paul Travelers and a copy of such report shall be submitted to the relevant Audit Committee of St. Paul Travelers.

33. The Chief Reinsurance Officer of St. Paul Travelers will maintain approved lists of reinsurers. St. Paul Travelers will not cede insurance to any reinsurer not set forth on those lists. Such lists will be available to the Superintendent upon examination. All approved reinsurance relationships will be reviewed by the Chief Reinsurance Officer of St. Paul Travelers and such review will include a written determination of whether the reinsurance entity is affiliated or controlled (by ownership, by contract or otherwise) by St. Paul Travelers.

34. **Additional Undertakings.**

a. St. Paul Travelers agrees that it will establish and maintain a training and education program, completion of which will be required for all officers,

executives, and employees of St. Paul Travelers who have supervisory responsibility over accounting, financial reporting and public disclosure functions relating to the United States (collectively, the "Mandatory Participants").

b. The training and education program shall be designed to cover, at a minimum, the following: (i) the obligations imposed by federal and state securities law, St. Paul Travelers' financial reporting and disclosure obligations; (ii) the financial reporting and disclosure obligations imposed on St. Paul Travelers by New York State, Illinois and Connecticut insurance laws; (iii) compliance with federal and state anti-trust laws; (iv) proper internal accounting controls and procedures; (v) discovering and recognizing accounting practices that do not conform to GAAP or SSAP or that are otherwise improper; and (vi) the obligations assumed by, and responses expected of the Mandatory Participants upon learning of improper, illegal or potentially illegal acts relating to St. Paul Travelers accounting and financial reporting. The General Counsel of St. Paul Travelers shall communicate to Mandatory Participants, in writing or by video, its endorsement of the training and education program.

COOPERATION WITH THE SUPERINTENDENT

35. St. Paul Travelers will maintain and provide to the Superintendent, upon the Superintendent' s request, complete underwriting files, including correspondence and e-mails,

and risk transfer analysis to the extent required by SSAP 62 relating to all reinsurance ceded or assumed by St. Paul Travelers. St. Paul Travelers will authorize its independent auditors and direct its internal auditors to make available to the Superintendent upon request all workpapers of their auditors, including but not limited to all Schedules of Unadjusted Differences.

36. St. Paul Travelers will file all holding company transactions in a timely manner in compliance with Article 15 of the New York Insurance Law and Department Regulation 52.

37. St. Paul Travelers will cooperate fully on all examinations and on all other regulatory requests and will respond to all Department inquiries in a prompt, timely and complete manner and will provide appropriate staff during examinations in order to provide timely responses. Failure to respond to the Department in a timely manner, as required by this paragraph, will constitute violations of this Assurance and the Insurance Law. Any issues that relate to the timeliness of the responses shall be reported to the Chief Financial Officer of St. Paul Travelers.

38. The Chair of the St. Paul Travelers' Audit Committee, if requested, will meet with the Superintendent and/or a designated official of the Superintendent on an annual basis or more frequently as deemed necessary by the Superintendent.

COOPERATION WITH THE ATTORNEYS GENERAL

39. St. Paul Travelers shall fully and promptly cooperate with the Attorneys General with regard to their Investigations, and related proceedings and actions, of any other person, corporation or entity, including but not limited to St. Paul Travelers' current and former

employees, concerning the insurance industry. St. Paul Travelers shall use its best efforts to ensure that all its officers, directors, employees, and agents also fully and promptly cooperate with the Attorneys General in their Investigations and related proceedings and actions. Cooperation shall include without limitation: (a) production voluntarily and without service of subpoena of any information and all documents or other tangible evidence reasonably requested by any of the Attorneys General, and any compilations or summaries of information or data that any of the Attorneys General reasonably request be prepared; (b) without the necessity of a subpoena, having St. Paul Travelers' officers, directors, employees and agents attend any proceedings at which the presence of any such persons is requested by any of the Attorneys General and having such persons answer any and all inquiries that may be put by any of the Attorneys General (or any deputies, assistants or agents of the Attorneys General) to any of them at any proceedings or otherwise ("proceedings" include but are not limited to any meetings, interviews, depositions, hearings, grand jury hearing, trial or other proceedings); (c) fully, fairly and truthfully disclosing all information and producing all records and other evidence in its possession relevant to all inquiries reasonably made by any of the Attorneys General concerning any illegal fraudulent or criminal conduct whatsoever about which it has any knowledge or information; (d) in the event any document is withheld or redacted on grounds of privilege, work-product or other legal doctrine, a statement shall be submitted in writing by St. Paul Travelers indicating: (i) the type of document; (ii) the date of the document; (iii) the author and recipient of the document; (iv) the general subject matter of the document; (v) the reason for withholding the document; and (vi) the Bates number or range of the withheld document. Any of the Attorneys General may challenge such claim in any forum of their choice and may, without limitation, rely

on all documents or communications theretofore produced or the contents of which have been described by St. Paul Travelers, its officers, directors, employees, or agents; and (e) St. Paul Travelers shall not compromise the integrity of the investigations, including jeopardizing the safety of any investigator or the confidentiality of any aspect of the investigation, including sharing or disclosing evidence, documents, or other information with others during the course of the investigation, without the consent of the relevant Attorney General. Nothing herein shall prevent St. Paul Travelers from providing such evidence to other regulators, or as otherwise required by law.

40. St. Paul Travelers shall comply fully with the terms of this Assurance. If St. Paul Travelers violates the terms of paragraph 39 in any material respect, as determined solely by any of the Attorney Generals: (a) each of the Attorney Generals may pursue any action, criminal or civil, against any entity for any crime it has committed, as authorized by law, without limitation; (b) as to any criminal prosecution brought by the New York or Illinois Attorneys General for violation of law committed within six years prior to the date of this Assurance or for any violation committed on or after the date of this Assurance, St. Paul Travelers shall waive any claim that such prosecution is time barred on grounds of speedy trial or speedy arraignment or the statute of limitations.

OTHER PROVISIONS

41. St. Paul Travelers shall implement procedures and controls designed to provide full and complete disclosure to state insurance regulators.

42. St. Paul Travelers commits that it shall not seek or accept, directly or indirectly,

indemnification pursuant to any insurance policy, with regard to any or all of the amounts payable pursuant to this Assurance.

43. None of the provisions of this Assurance shall apply to St. Paul Travelers' Life Insurance Operations.

44. The Attorneys General agree that any prior approval required under the terms of this Assurance shall not be unreasonably withheld.

45. This Assurance is not intended to disqualify St. Paul Travelers, its subsidiaries, or any of its current employees from engaging in any business in New York, Illinois, Connecticut or in any other jurisdiction. Nothing in this Assurance shall relieve St. Paul Travelers or its subsidiaries of obligations imposed by any applicable state insurance law or regulations or other applicable law.

46. This Assurance shall not confer any rights upon any persons or entities besides the Attorneys General and St. Paul Travelers.

47. St. Paul Travelers shall maintain custody of, or make arrangements to have maintained, all documents and records related to this matter for a period of not less than six years.

48. The Attorneys General may make such application as appropriate to enforce or interpret the provisions of this Assurance, or in the alternative, maintain any action, either civil or criminal, for such other and further relief as the Attorneys General may determine is proper and necessary for the enforcement of this Assurance. If compliance with any aspect of this Assurance

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proves impracticable, St. Paul Travelers reserves the right to request that the parties modify the Assurance accordingly.

49. In any application or in any such action, facsimile transmission of a copy of any papers to current counsel for St. Paul Travelers shall be good and sufficient service on St. Paul Travelers unless St. Paul Travelers designates, in a writing to the relevant Attorney General, another person to receive service by facsimile transmission.

50. Facsimile transmission of a copy of this Assurance to counsel for St. Paul Travelers shall be good and sufficient service on St. Paul Travelers.

51. This Assurance shall be governed by the laws of the State of New York without regard to conflict of laws principles, except that with respect to enforcement actions taken by the Connecticut Attorney General or the Illinois Attorney General. Those actions will be governed by the laws of the state of the Attorney General bringing the action without regard to choice of law principles.

52. This Assurance may be executed in counterparts.

Executed this 31st day of July, 2006.

ELIOT SPITZER

Attorney General of the State of New York

/s/ Eliot Spitzer

Office of the New York State Attorney General
120 Broadway, 25th Floor
New York, New York 10271

LISA MADIGAN

Attorney General of Illinois

/s/ Lisa Madigan

Office of the Attorney General
State of Illinois

100 W. Randolph Street, 12th Floor
Chicago, Illinois 60601

RICHARD BLUMENTHAL
Attorney General of the State of Connecticut

/s/ Richard Blumenthal
Office of the Connecticut Attorney General
55 Elm Street
Hartford, Connecticut 06141-0120

The St. Paul Travelers Companies, Inc.

/s/ Kenneth F. Spence, III
Kenneth F. Spence, III
Executive Vice President, General Counsel
385 Washington Street
St. Paul, Minnesota 55102-1396

EXHIBIT 1

APOLOGY

St. Paul Travelers acknowledges that certain of its employees violated acceptable business practices and St. Paul Travelers' own standards of conduct by engaging in improper bidding practices and certain "finite insurance" activities. St. Paul Travelers apologizes and has enacted business practice reforms to ensure that these incidents do not occur again. Further, St. Paul Travelers has agreed to support legislation eliminating contingent compensation for brokers and agents.

EXHIBIT 2

RELEASE

This RELEASE (the "Release") is executed this day of , 2007 by RELEASOR (defined below) in favor of RELEASEE (defined below).

DEFINITIONS

"RELEASOR" refers to **[fill in name]** and any of its affiliates, subsidiaries, associates, general or limited partners or partnerships, predecessors, successors, or assigns, including, without limitation, any of their respective present or former officers, directors, trustees, employees, agents, attorneys, representatives and shareholders, affiliates, associates, general or limited partners or partnerships, heirs, executors, administrators, predecessors, successors, assigns or insurers acting on behalf of RELEASOR.

"RELEASEE" refers to St. Paul Travelers. and any of its subsidiaries, associates, general or limited partners or partnerships, predecessors, successors, or assigns, including, without limitation, any of their respective present or former officers, directors, trustees, employees, agents, attorneys, representatives and shareholders, affiliates, associates, general or limited partners or partnerships, heirs, executors, administrators, predecessors, successors, assigns or insurers (collectively, "St. Paul Travelers").

"ASSURANCE" refers to an Assurance of Discontinuance between St. Paul Travelers and the Attorney General of the State of New York, the Attorney General of the State of Illinois and the Attorney General of the State of Connecticut (collectively "Attorneys General") dated--- 2006 and an accompanying stipulation between St. Paul Travelers and the Superintendent of Insurance of the State of New York ("NYSI") dated ----- 2006, relating to (i) investigation by each of the Attorneys General and NYSI related to St. Paul Travelers' alleged use of contingent commission agreements or placement service agreements to steer business; and (ii) investigations by each of the Attorneys General and NYSI related to St. Paul Travelers' alleged participation in bid rigging schemes.

RELEASE

1. In consideration for the total payment of $ in accordance with the terms of the ASSURANCE, RELEASOR does hereby fully release, waive and forever discharge RELEASEE from any and all claims, demands, debts, rights, causes of action or liabilities whatsoever, including known and unknown claims, now existing or hereafter arising, in law, equity or otherwise, whether under state, federal or foreign statutory or common law, and whether possessed or asserted directly, indirectly, derivatively, representatively or in any other capacity (collectively, "claims"), to the extent any such claims are based upon, arise out of or relate to, in whole or in part, (i) any of the allegations, acts, omissions, transactions, events, types of conduct or matters described in the ASSURANCE, or were subject to investigation by any of the Attorneys General and NYSI as referenced in the ASSURANCE; (ii) any allegations, acts, omissions, transactions, events, types of conduct or matters that are the subject of In re Insurance Brokerage Antitrust Litigation, MDL No. 1663, or the actions pending in the United States District Court for the District of New Jersey captioned In re: Insurance Brokerage Antitrust Litigation, Civ. No. 045184 (FSH), and In re Employee Benefit Insurance Brokerage Antitrust Litigation, Civ. No. 05-1079 (FSH) or any related actions filed or transferred to the United States District Court for the District of New Jersey that are consolidated into either of the preceding Civil Action dockets; or (iii) any allegations of bid-rigging or of the use of

contingent commission agreements or placement service agreements to steer business arising from acts or conduct on or before the date of the ASSURANCE; provided, however, that RELEASOR does not hereby release, waive, or discharge RELEASEE from any claims that are based upon, arise out of or relate to (a) the purchase or sale of St. Paul Travelers' securities; (b) St. Paul Travelers' Life Insurance Operations (as defined by the Assurance to which this Release is an exhibit).

2. In the event that the total payment referred to in paragraph 1 is not made for any reason, then this RELEASE shall be deemed null and void, provided that any payments received by RELEASOR shall be credited to St. Paul Travelers in connection with any claims that RELEASOR may assert against St. Paul Travelers, or that are asserted on behalf of RELEASOR or by a class of which RELEASOR is a member, against St. Paul Travelers.

3. This RELEASE may not be changed orally and shall be governed by and interpreted in accordance with the internal laws of the State of New York, without giving effect to choice of law principles, except to the extent that federal law requires that federal law governs. Any disputes arising out of or related to this RELEASE shall be subject to the exclusive jurisdiction of the Supreme Court of the State of New York or, to the extent federal jurisdiction exists, the United States District Court for the Southern District of New York.

4. Releasor represents and warrants that the claims have not been sold, assigned or hypothecated in whole or in part.

Dated:

RELEASOR:

By:

Print Name:

Title:

Exhibit 10.2

STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

X

In the Matter of

THE ST. PAUL TRAVELERS COMPANIES, INC. and
its insurer subsidiaries authorized to transact
insurance business in the State of New York,

Respondents.

X

STIPULATION
No. 2006-0162-S

WHEREAS, Respondent The St. Paul Travelers Companies, Inc. is a Minnesota corporation with its principal place of business in Saint Paul, Minnesota and is a holding company within the meaning of Article 15 of the New York Insurance Law ("Insurance Law") which owns and/or controls the following insurers authorized to transact insurance business in the State of New York: Travelers Casualty and Surety Company, The Automobile Insurance Company of Hartford, Connecticut, Standard Fire Insurance Company, St. Paul Protective Insurance Company, Commercial Guaranty Casualty Insurance Company, Atlantic Insurance Company, Select Insurance Company, Seaboard Surety Company, St. Paul Fire and Marine Insurance Company, St. Paul Guardian Insurance Company, St. Paul Mercury Insurance Company, The Charter Oak Fire Insurance Company, The Phoenix Insurance Company, The Travelers Indemnity Company, The Travelers Indemnity Company of America, Travelers Property Casualty Company of America, The Travelers Indemnity Company of Connecticut, Fidelity and Guaranty Insurance Underwriters, Inc., United States Fidelity and Guaranty Company, The Travelers Home and Marine Insurance Company, TravCo Insurance Company, Travelers Casualty and Surety Company of America, Fidelity and Guaranty Insurance Company, Travelers Commercial Insurance Company, Travelers Property Casualty Insurance Company, Travelers Casualty Company of Connecticut, Discover Property & Casualty Insurance Company, Farmington Casualty Company, Athena Assurance Company and Gulf Underwriters Insurance Company;

WHEREAS, pursuant to the provisions of Executive Law § 63(12), the Donnelly Act (Gen. Bus. Law § 340 *et seq.),* the Martin Act (Gen. Bus. Law § 352-c) and the common law of the State of New York, Eliot Spitzer, Attorney General of the State of New York, caused an investigation to be made of The St. Paul Travelers Companies, Inc. and its subsidiaries ("St. Paul Travelers") relating to practices in the marketing, sale, renewal, placement or servicing of insurance and reinsurance and their accounting and public reporting practices, including those relating to nontraditional and finite reinsurance (the "Investigation"); and pursuant to Conn. Gen. Stat. § 35-24 et seq. (the Connecticut Antitrust Act) and Conn. Gen. Stat. § 42-ll0a et seq. the (Connecticut Unfair Trade Practices Act), Richard Blumenthal, Attorney General of the State of Connecticut, caused an investigation to be made of St. Paul Travelers on the subject matter of the Investigation; and pursuant to the Illinois Antitrust Act, 740 ILCS 10/1 et seq. and the

Illinois Consumer Fraud and Deceptive Business Practices Act, 815 ILCS 505/1 et sec. Lisa Madigan, Attorney General of the State of Illinois, caused an investigation to be made of St. Paul Travelers on the subject matter of the Investigation (collectively "Attorneys General Investigations");

WHEREAS, the Superintendent of Insurance of the State of New York ("Superintendent") and the New York State Insurance Department ("Department") conducted an investigation of St. Paul Travelers on the subject matter of the Investigations (the "Superintendent' s Investigation");

WHEREAS, based on the Attorneys General Investigations and the Superintendent' s Investigation, the Attorneys General and the Superintendent allege that St. Paul Travelers unlawfully deceived policyholders, regulators and other authorities and shareholders by: (a) participating in schemes to steer business and allocate customers; (b) participating in rigging of bids for excess casualty insurance through Marsh & McLennan Companies, Inc. ("Marsh") and (c) improperly using reinsurance transactions to bolster the quality, quantity and stability of their clients' and The St. Paul Companies Inc.' s earnings;

WHEREAS, St. Paul Travelers has been and is continuing to cooperate with the Attorneys General Investigations and the Superintendent' s Investigation;

WHEREAS, the Attorneys General have resolved all issues uncovered to date (with the exception of those areas noted below) in the Attorneys General Investigations pursuant to an Assurance of Discontinuance the ("Assurance");

WHEREAS, in the wake of the Attorneys General Investigations and the Superintendent' s Investigation, St. Paul Travelers has adopted and under the Assurance and this Stipulation, St. Paul Travelers will continue to implement a number of business reforms governing the conduct of employees of St. Paul Travelers;

WHEREAS, nothing herein shall be construed to apply to any business or operations involving group and individual: (1) fixed and variable life insurance, (2) fixed and variable, immediate and deferred annuities, (3) accidental death and dismemberment insurance, (4) short and long term disability insurance, (5) long term care insurance, (6) accident and health insurance, including vision and dental

insurance, (7) credit insurance, (8) involuntary unemployment insurance, (9) guaranteed investment contracts, and (10) funding agreements (collectively "St. Paul Travelers' Life Insurance Operations");

WHEREAS, THE Superintendent finds the relief and agreements contained in the Stipulation appropriate and in the public interest and accepts this Stipulation as settlement of the Superintendent' s Investigation;

WHEREAS, this Stipulation is entered into solely for the purpose of resolving the Superintendent' s Investigation and is not intended to be used for any other purpose; NOW THEREFORE

IT IS HEREBY STIPULATED AND AGREED by and between St. Paul Travelers and the Department, subject to the approval of the Superintendent, as follows:

BID RIGGING - EXCESS CASUALTY POLICYHOLDERS

1. On or before September 7, 2006, St. Paul Travelers shall pay $37 million into a fund (the "Excess Casualty Fund") held by St. Paul Travelers to be paid to St. Paul Travelers' policyholders who purchased or renewed St. Paul Travelers' excess casualty policies, excluding excess workers compensation policies, through Marsh during the period from January 1, 2000 through September 30, 2004 (the "Eligible Policyholders"). All of the money paid into the Excess Casualty Fund and any investment or interest income earned thereon shall be paid to Eligible Policyholders pursuant to this Stipulation. No portion of the Excess Casualty Fund shall be considered a fine or a penalty.

2. The Excess Casualty Fund shall be invested in a designated money market fund subject to the prior approval of the Attorneys General and the Superintendent.

3. St. Paul Travelers shall (a) by November 8, 2006, calculate the amount of money each of the Eligible Policyholders paid for excess casualty insurance placed by St. Paul Travelers through Marsh with inception or renewal dates during the period from January 1, 2000 through September 30, 2004 (the "Eligible Policies"); (b) within ten days of completing these calculations, file a report with the Attorneys General and the Superintendent, certified by an officer of St. Paul Travelers, setting forth: (i) each Eligible Policyholder' s name and address; (ii) the Eligible Policyholder' s Eligible Policy(ies) purchased or renewed and policy numbers; (iii) the amount the Eligible Policyholder paid in premiums for each such policy; and (iv) the amount each policyholder is eligible to receive which shall equal each policyholder' s pro rata share of the Excess Casualty Fund as calculated by multiplying the amount in the Excess Casualty Fund by the ratio of the policyholder' s gross written premium for Eligible

Policies for the period from January 1, 2000 through September 30, 2004, divided by the total gross written premium for all Eligible Policies; and (c) by November 22, 2006, send a notice to each Eligible Policyholder, setting forth items (ii) through (iv), above, and stating that the amount paid may increase if there is less than full participation by Eligible Policyholders in the Excess Casualty Fund (the "Excess Notice"). The form of the Excess Notice shall be subject to the prior approval of the Attorneys General and Superintendent.

4. Eligible Policyholders who receive an Excess Notice and who voluntarily elect to receive a cash distribution the "Participating Policyholders" shall tender a release in the form attached hereto on or before April 23, 2007.

5. On or before June 4, 2007, St. Paul Travelers shall pay each Participating Policyholder the amount that that Participating Policyholder is eligible to receive from the Excess Casualty Fund as set forth in paragraph 3(b)(iv) above, and any interest or investment income earned thereon.

6. On or before July 2, 2007, St. Paul Travelers shall file an interim report with the Attorneys General and the Superintendent, certified by an officer of St. Paul Travelers, listing all amounts paid from the Excess Casualty Fund.

7. In the event that any Eligible Policyholder elects not to participate or otherwise does not respond to the Excess Notice (the "Non-Participating Policyholders"), the amount that such policyholder was eligible to receive from the Excess Casualty Fund as set forth in paragraph 3(b)(iv) may be used by St. Paul Travelers to satisfy any pending or other claims asserted by policyholders relating to the excess casualty bid rigging or excess casualty steering allegations set forth in this Stipulation, provided that in no event shall a distribution be made from the Excess Casualty Fund to any other policyholder until all Participating Policyholders have been paid the full aggregate amount set forth in paragraph 3(b)(iv) above, and any interest or investment income earned thereon; nor shall the total payments from the Excess Casualty Fund to any Non-Participating Policyholder exceed 80% of the amount that Non-Participating Policyholder was originally eligible to receive as set forth in paragraph 3(b)(iv).

8. If any money remains in the Excess Casualty Fund as of April 2, 2008, any such funds shall be distributed by May 2, 2008, on a pro rata basis to the Participating Policyholders.

9. In no event shall any of the money in the Excess Casualty Fund or the investment or interest income earned thereon be used to pay or considered in the calculation of attorneys fees.

10. In no event shall any of the money in the Excess Casualty Fund or the

investment or interest income earned thereon be used to pay or considered in the calculation of commissions, administrative or other fees to St. Paul Travelers.

11. On or before May 15, 2008, St. Paul Travelers shall file a report with the Attorneys General and the Superintendent, certified by an officer of St. Paul Travelers, listing all amounts paid from the Excess Casualty Fund, including any payments subsequent to the payments described in paragraph 6.

MONETARY FINE, PENALTY AND PAYMENT

12. On or before September 7, 2006, St. Paul Travelers shall pay $40 million as a fine or penalty of which a $24 million fine will be paid by wire transfer to the State of New York, a $8 million payment will be made in accordance with 815 ILCS 505/7(d) by wire transfer to the State of Illinois and a $8 million penalty will be paid by wire transfer to the State of Connecticut. Each Attorney General and the Superintendent shall provide issuing instructions with respect to the payments. These fines and penalties are imposed for all of the improper conduct described in the Assurance and this Stipulation.

BUSINESS REFORMS

13. Within 60 days of the date of this Stipulation (or such other date as specified below), St. Paul Travelers shall undertake the following business reforms. St. Paul Travelers will not undertake any transaction for the purpose of circumventing the prohibitions contained in this Stipulation.

14. **Controls on "Book Rolls."** St. Paul Travelers shall not enter any agreement or arrangement to transfer 25 or more insurance policies from an insurer unless the agreement or arrangement provides for giving written notice to affected insureds of (a) the reason for the transfer of the policy, including any Compensation paid to the Producer related to the transfer; and (b) a statement that the insured can review and obtain information relating to St. Paul Travelers' practices and policies regarding Compensation on either a website or from a toll-free telephone number.

15. **Controls on Service Centers.** Persons communicating on behalf of St. Paul Travelers with any consumer and/or insured participating in any St. Paul Travelers sponsored or affiliated service center must immediately and clearly identify themselves to the consumer and/or insured as representing St. Paul Travelers.

16. **Controls on Finite and Non-traditional Reinsurance.** St. Paul Travelers commits that St. Paul Travelers will enact policies and procedures satisfactory to the Attorneys General and the Superintendent to prevent transactions designed

solely to manipulate accounting results, transactions involving insufficient risk transfer created for purposes of improperly qualifying such transactions for reinsurance accounting, and transactions that contain undisclosed side agreements.

17. St. Paul Travelers shall not engage or attempt to engage in violations of New York State Executive Law § 63(12), New York State' s Donnelly Act (Gen. Bus. Law § 340 et seq.), New York State' s Martin Act (Gen. Bus. Law § 352-c), New York Insurance Law, Conn. Gen. Stat. § 35-24 et seq, 42-110a et seq. and 33-1335 and the Illinois Antitrust Act, 740 ILCS 10/1 et seq. and the Illinois Consumer Fraud and Deceptive Business Practices Act, 815 ILCS 505/1 et seq.

REINSURANCE REPORTING OBLIGATIONS

18. For a period of five years beginning November 6, 2006, St. Paul Travelers will provide annually by May I of each year to the Superintendent a report, in a format approved by the Superintendent, that includes:

a. A review of ceded and assumed reinsurance of the property/casualty insurance subsidiaries of St. Paul Travelers required to file statutory financial statements on the NAIC blanks (the "Property/Casualty Insurers") verifying that all contracts comply with SSAP 62 and 75 and the new NAIC disclosure and attestation requirements including the attestation that with respect to all reinsurance contracts for which the reporting entity is taking credit on its current financial statements, to the best of St. Paul Travelers' knowledge and belief, after diligent inquiry and unless noted as an exception under the attestation requirement:

i. Consistent with SSAP 62, there are no separate written or oral agreements between the reporting entity (or its affiliates or companies it controls) and the assuming reinsurer that would under any circumstances, reduce, limit, mitigate or otherwise affect any actual or potential loss to the parties under the reinsurance contract, other than inuring contracts that are explicitly defined in the reinsurance contract except as disclosed;

ii. For each such reinsurance contract entered into, renewed or amended on or after January 1, 1994, for which risk transfer is not reasonably considered to be self-evident, documentation concerning the economic intent of the transaction and the risk transfer analysis evidencing the proper accounting treatment, as required by SSAP 62 and 75, is available for review;

iii. The reporting entity complies with all the requirements set forth in SSAP 62 and 75, and any supporting documentation is available for review;

iv. The reporting entity has appropriate controls in place to monitor the use of reinsurance and adhere to the provisions of SSAP 62 and 75.

b. A list of all its affiliated insurers, categorized by domicile, whether controlled through ownership or otherwise under the Insurance Law. The list shall include the percentage of ownership or other means by which St. Paul Travelers controls the affiliated insurer.

c. A list of its ownership of five percent or more of the voting shares of any non-affiliated insurer entities.

d. A list of non-affiliated insurers to whom St. Paul Travelers' Property/Casualty Insurers have ceded business during the preceding calendar year either directly, or through retrocession agreements if known, excluding those captive reinsurance entities that do not accept third party business, where the business ceded represents fifty percent or more of the entire direct and assumed premium written by insurer, based upon such insurer's most recent publicly available financial statements.

Such report shall be certified by the Chief Reinsurance Officer and the Chief Executive Officer of St. Paul Travelers and a copy of such report shall be submitted to the relevant Audit Committee of St. Paul Travelers.

19. The Chief Reinsurance Officer of St. Paul Travelers will maintain approved lists of reinsurers. St. Paul Travelers will not cede insurance to any reinsurer not set forth on those lists. Such lists will be available to the Superintendent upon examination. All approved reinsurance relationships will be reviewed by the Chief Reinsurance Officer of St. Paul Travelers and such review will include a written determination of whether the reinsurance entity is affiliated or controlled (by ownership, by contract or otherwise) by St. Paul Travelers.

20. **Additional Undertakings.**

a. St. Paul Travelers agrees that it will establish and maintain a training and education program, completion of which will be required for all officers, executives, and employees of St. Paul Travelers who have supervisory responsibility over accounting, financial reporting and public disclosure functions relating to the United States (collectively, the "Mandatory Participants").

b. The training and education program shall be designed to cover, at a minimum, the following: (i) the obligations imposed by federal and state securities law, St. Paul Travelers' financial reporting and disclosure obligations; (ii) the financial reporting and disclosure obligations imposed on St. Paul Travelers by New York State, Illinois and Connecticut insurance laws; (iii) compliance with federal and state anti-trust laws; (iv) proper internal accounting controls and procedures; (v) discovering and recognizing accounting practices that do not conform to GAAP or SSAP or that are otherwise improper; and (vi) the obligations assumed by, and responses expected of the Mandatory Participants upon learning of improper, illegal or potentially illegal acts relating to St. Paul Travelers accounting and financial reporting. The General Counsel of St. Paul Travelers shall communicate to Mandatory Participants, in writing or by video, its endorsement of the training and education program.

COOPERATION WITH THE SUPERINTENDENT

21. St. Paul Travelers will maintain and provide to the Superintendent, upon the Superintendent' s request, complete underwriting files, including correspondence and c-mails, and risk transfer analysis to the extent required by SSAP 62 relating to all reinsurance ceded or assumed by St. Paul Travelers. St. Paul Travelers will authorize its independent auditors and direct its internal auditors to make available to the Superintendent upon request all workpapers of their auditors, including but not limited to all Schedules of Unadjusted Differences.

22. St. Paul Travelers will file all holding company transactions in a timely manner in compliance with Article 15 of the New York Insurance Law and Department Regulation 52.

23. St. Paul Travelers will cooperate fully on all examinations and on all other regulatory requests and will respond to all Department inquiries in a prompt, timely and complete manner and will provide appropriate staff during examinations in order to provide timely responses. Failure to respond to the Department in a timely manner, as required by this paragraph, will constitute violations of this Stipulation and the Insurance Law. Any issues that relate to the timeliness of the responses shall be reported to the Chief Financial Officer of St. Paul Travelers.

24. The Chair of the St. Paul Travelers' Audit Committee, if requested, will meet with the Superintendent and/or a designated official of the Superintendent on an annual basis or more frequently as deemed necessary by the Superintendent.

OTHER PROVISIONS

25. St. Paul Travelers shall implement procedures and controls designed to provide full and complete disclosure to state insurance regulators.

26. St. Paul Travelers commits that it shall not seek or accept, directly or indirectly, indemnification pursuant to any insurance policy, with regard to any or all of the amounts payable pursuant to this Stipulation and the Assurance.

27. None of the provisions of this Stipulation shall apply to St. Paul Travelers' Life Insurance Operations.

28. The Superintendent agrees that any prior approval required under the terms of this Stipulation shall not be unreasonably withheld.

29. This Stipulation is not intended to disqualify St. Paul Travelers, its subsidiaries, or any of its current employees from engaging in any business in New York, Illinois, Connecticut or in any other jurisdiction. Nothing in this Stipulation shall relieve St. Paul Travelers or its subsidiaries of obligations imposed by any applicable state insurance law or regulations or other applicable law.

30. This Stipulation shall not confer any rights upon any persons or entities besides the Superintendent, the Department and St. Paul Travelers.

31. St. Paul Travelers shall maintain custody of, or make arrangements to have maintained, all documents and records related to this matter for a period of not less than six years.

32. St. Paul Travelers neither admits nor denies the allegations contained in the Assurance or this Stipulation.

33. This Stipulation shall in no way limit the statutory authority of the Superintendent to take regulatory action to enforce this Stipulation, or to examine, investigate and/or take regulatory action against St. Paul Travelers or any current or former licensee of the Department for any violations of the Insurance Law or Department Regulation other than the specific matters resolved by this Stipulation and the Assurance.

34. The monetary obligations described in paragraphs 1-12 above in this Stipulation are identical to the monetary payment obligations contained in the Assurance and, as a result, St. Paul Travelers need only make one payment with respect to each such obligation.

Dated: New York, New York
August 1, 2006

NEW YORK STATE INSURANCE DEPARTMENT

By: /s/ Samuel A. Wachtel

Samuel A. Wachtel
Supervising Attorney

THE ST. PAUL TRAVELERS COMPANIES, INC.

By: /s/ Kenneth F. Spence, III

Name: Kenneth F. Spence, III
Title: Executive Vice-President
General Counsel

STATE OF MINNESOTA)
)ss.:
COUNTY OF RAMSEY)

On this 1st day of August, 2006 before me personally came Kenneth F. Spence. III, to me known, who, being by me duly sworn, did depose and say that he is the Executive Vice President and General Counsel of The St. Paul Travelers Companies, Inc., the corporation described in and which executed the above instrument; and that he is authorized to sign his name thereto.

/s/ Teri L. Heltne

Notary Public

THE FOREGOING STIPULATION IS HEREBY APPROVED.

Dated: New York, New York
August 1, 2006

HOWARD MILLS
Superintendent of Insurance

By: /s/ Susan Donnellan
Susan Donnellan
Deputy Superintendent & General Counsel

RELEASE

This RELEASE (the "Release") is executed this day of , 2007 by RELEASOR (defined below) in favor of RELEASEE (defined below).

DEFINITIONS

"RELEASOR" refers to [**fill in name**] and any of its affiliates, subsidiaries, associates, general or limited partners or partnerships, predecessors, successors, or assigns, including, without limitation, any of their respective present or former officers, directors, trustees, employees, agents, attorneys, representatives and shareholders, affiliates, associates, general or limited partners or partnerships, heirs, executors, administrators, predecessors, successors, assigns or insurers acting on behalf of RELEASOR.

"RELEASEE" refers to St. Paul Travelers, and any of its subsidiaries, associates, general or limited partners or partnerships, predecessors, successors, or assigns, including, without limitation, any of their respective present or former officers, directors, trustees, employees, agents, attorneys, representatives and shareholders, affiliates, associates, general or limited partners or partnerships, heirs, executors, administrators, predecessors, successors, assigns or insurers (collectively, "St. Paul Travelers").

"ASSURANCE" refers to an Assurance of Discontinuance between St. Paul Travelers and the Attorney General of the State of New York, the Attorney General of the State of Illinois and the Attorney General of the State of Connecticut (collectively "Attorneys General") dated 2006 and an accompanying stipulation between St. Paul Travelers and the Superintendent of Insurance of the State of New York ("NYSI") dated 2006, relating to (i) investigation by each of the Attorneys General and NYSI related to St. Paul Travelers' alleged use of contingent commission agreements or placement service agreements to steer business; and (ii) investigations by each of the Attorneys General and NYSI related to St. Paul Travelers' alleged participation in bid rigging schemes.

RELEASE

1. In consideration for the total payment of $ in accordance with the terms of the ASSURANCE, RELEASOR does hereby fully release, waive and forever discharge RELEASEE from any and all claims, demands, debts, rights, causes of action or liabilities whatsoever, including known and unknown claims, now existing or hereafter arising, in law, equity or otherwise, whether under state, federal or foreign statutory or common law, and whether possessed or asserted directly, indirectly, derivatively, representatively or in any other capacity (collectively, "claims"), to the extent any such claims are based upon, arise out of or relate to, in whole or in part, (i) any of the allegations, acts, omissions, transactions, events, types of conduct or matters described in the ASSURANCE, or were subject to investigation by any of the Attorneys General and NYSI as referenced in the ASSURANCE; (ii) any allegations, acts, omissions, transactions, events, types of conduct or matters that are the subject of In re: Insurance Brokerage Antitrust Litigation, MDL No. 1663, or the actions pending in the United States District Court for the District of New Jersey captioned In re: Insurance Brokerage Antitrust Litigation, Civ. No. 04-5184 (FSH), and In re Employee Benefit Insurance Brokerage Antitrust Litigation, Civ. No. 05-1079 (FSH) or any related actions filed or transferred to the United States District Court for the District of New Jersey that are consolidated into either of the preceding Civil Action dockets; or (iii) any allegations of bid-rigging or of the use of

contingent commission agreements or placement service agreements to steer business arising from acts or conduct on or before the date of the ASSURANCE; provided, however, that RELEASOR does not hereby release, waive, or discharge RELEASEE from any claims that are based upon, arise out of or relate to (a) the purchase or sale of St. Paul Travelers' securities; (b) St. Paul Travelers' Life Insurance Operations (as defined by the Assurance to which this Release is an exhibit).

2. In the event that the total payment referred to in paragraph 1 is not made for any reason, then this RELEASE shall be deemed null and void, provided that any payments received by RELEASOR shall be credited to St. Paul Travelers in connection with any claims that RELEASOR may assert against St. Paul Travelers, or that are asserted on behalf of RELEASOR or by a class of which RELEASOR is a member, against St. Paul Travelers.

3. This RELEASE may not be changed orally and shall be governed by and interpreted in accordance with the internal laws of the State of New York, without giving effect to choice of law principles, except to the extent that federal law requires that federal law governs. Any disputes arising out of or related to this RELEASE shall be subject to the exclusive jurisdiction of the Supreme Court of the State of New York or, to the extent federal jurisdiction exists, the United States District Court for the Southern District of New York.

4. Releasor represents and warrants that the claims have not been sold, assigned or hypothecated in whole or in part.

Dated:
RELEASOR:
By:
Print Name:
Title:

Exhibit 12.1

THE ST. PAUL TRAVELERS COMPANIES, INC. AND SUBSIDIARIES
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(in millions)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Income from continuing operations before income taxes	**$ 1,344**	$ 1,294	**$ 2,682**	$ 2,482
Interest	**78**	70	**154**	141
Portion of rentals deemed to be interest	**17**	15	**35**	30
Income available for fixed charges	**$ 1,439**	$ 1,379	**$ 2,871**	$ 2,653
Fixed charges:				
Interest	**$ 78**	$ 70	**$ 154**	$ 141
Portion of rentals deemed to be interest	**17**	15	**35**	30
Total fixed charges	**95**	85	**189**	171
Preferred stock dividend requirements	**2**	2	**4**	5
Total fixed charges and preferred stock dividend requirements	**$ 97**	$ 87	**$ 193**	$ 176
Ratio of earnings to fixed charges	**15.22**	16.22	**15.23**	15.51
Ratio of earnings to combined fixed charges and preferred stock dividend requirements	**14.92**	15.85	**14.93**	15.07

The ratio of earnings to fixed charges is computed by dividing income available for fixed charges by the fixed charges. For purposes of this ratio, fixed charges consist of that portion of rentals deemed representative of the appropriate interest factor.

Exhibit 31.1

CERTIFICATION

I, Jay S. Fishman, Chairman and Chief Executive Officer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 of The St. Paul Travelers Companies, Inc. (the Company);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company' s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the Company' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the Company' s internal control over financial reporting that occurred during the Company' s most recent fiscal quarter (the Company' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company' s internal control over financial reporting; and

5. The Company' s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company' s auditors and the audit committee of the Company' s board of directors:

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company' s ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company' s internal control over financial reporting.

Date: August 3, 2006

By: /S/ JAY S. FISHMAN

Jay S. Fishman
Chairman and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Jay S. Benet, Vice Chairman and Chief Financial Officer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 of The St. Paul Travelers Companies, Inc. (the Company);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company' s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) evaluated the effectiveness of the Company' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) disclosed in this report any change in the Company' s internal control over financial reporting that occurred during the Company' s most recent fiscal quarter (the Company' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company' s internal control over financial reporting; and

5. The Company' s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company' s auditors and the audit committee of the Company' s board of directors:

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company' s ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company' s internal control over financial reporting.

Date: August 3, 2006

By: /S/ JAY S. BENET

Jay S. Benet
Vice Chairman and Chief Financial Officer

Exhibit 32.1

**THE ST. PAUL TRAVELERS COMPANIES, INC.
CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and 18 U.S.C. Section 1350, the undersigned officer of The St. Paul Travelers Companies, Inc. (the "Company"), hereby certifies that the Company' s Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 3, 2006

By: /S/ JAY S. FISHMAN

Name: Jay S. Fishman
Title: Chairman and Chief Executive Officer

Exhibit 32.2

THE ST. PAUL TRAVELERS COMPANIES, INC.
CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and 18 U.S.C. Section 1350, the undersigned officer of The St. Paul Travelers Companies, Inc. (the "Company"), hereby certifies that the Company' s Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 3, 2006

By: /S/ JAY S. BENET

Name: Jay S. Benet
Title: Vice Chairman and Chief Financial Officer