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**NYSE: TRV**

## Travelers Reports Record Fourth Quarter and Full Year Net and Operating Income per Diluted Share

### Quarterly Net and Operating Income per Diluted Share of $3.11 and $3.07, Both up 15% from Prior Year Quarter, Generated Return on Equity of 16.6% and Operating Return on Equity of 17.7%

### Full Year Net and Operating Income per Diluted Share of $10.70 and $10.55, up 10% and 12%, Respectively, from Prior Year, Generated Return on Equity of 14.6% and Operating Return on Equity of 15.5%

- Net income and operating income of $1.038 billion and $1.023 billion increased 5% and 4%, respectively, from prior year quarter.
- Net written premiums of $5.836 billion increased 4% from prior year quarter primarily due to growth in domestic business insurance and the acquisition of Dominion of Canada in November 2013.
- Total capital returned to shareholders of $1.183 billion in the quarter, including $1.001 billion in share repurchases. Full year total capital returned to shareholders of $4.068 billion.
- Increases in book value per share of 10% to $77.08 and adjusted book value per share of 7% to $70.98 from year-end 2013.
- Board of Directors approves quarterly dividend per share of $0.55.

**New York, January 22, 2015** – The Travelers Companies, Inc. today reported net income of $1.038 billion, or $3.11 per diluted share, for the quarter ended December 31, 2014, compared to net income of $988 million, or $2.70 per diluted share, in the prior year quarter. Operating income in the current quarter was $1.023 billion, or $3.07 per diluted share, compared to $981 million, or $2.68 per diluted share, in the prior year quarter. The increase in net and operating income primarily resulted from higher net favorable prior year reserve development and higher underlying underwriting gain (i.e., excluding net favorable prior year reserve development and catastrophe losses), partially offset by lower net investment income and an increase in other expense. Per diluted share amounts also benefited from the impact of share repurchases.

### Consolidated Highlights

| ($ in millions, except for per share amounts, and after-tax, except for premiums & revenues) | Three Months Ended December 31, | | | Twelve Months Ended December 31, | | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | Change | 2014 | 2013 | Change |
| **Net written premiums** | $ 5,836 | $ 5,633 | 4 % | $ 23,904 | $ 22,767 | 5 % |
| **Total revenues** | $ 6,783 | $ 6,737 | 1 | $ 27,162 | $ 26,191 | 4 |
| **Operating income** | $ 1,023 | $ 981 | 4 | $ 3,641 | $ 3,567 | 2 |
| *per diluted share* | *$ 3.07* | *$ 2.68* | *15* | *$ 10.55* | *$ 9.46* | *12* |
| **Net income** | $ 1,038 | $ 988 | 5 | $ 3,692 | $ 3,673 | 1 |
| *per diluted share* | *$ 3.11* | *$ 2.70* | *15* | *$ 10.70* | *$ 9.74* | *10* |
| **Diluted weighted average shares outstanding** | 331.0 | 363.4 | (9) | 342.5 | 374.3 | (8) |
| **Combined ratio** | 85.0% | 87.7% | (2.7) pts | 89.0% | 89.8% | (0.8) pts |
| **Underlying combined ratio** | 90.2% | 91.2% | (1.0) pts | 89.9% | 90.9% | (1.0) pts |
| **Operating return on equity** | 17.7% | 16.8% | 0.9 pts | 15.5% | 15.5% | - pts |
| **Return on equity** | 16.6% | 15.9% | 0.7 pts | 14.6% | 14.6% | - pts |

| | As of December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | Change |
| **Book value per share** | $ 77.08 | $ 70.15 | 10 % |
| **Adjusted book value per share** | 70.98 | 66.41 | 7 |

See Glossary of Financial Measures for definitions and the statistical supplement for additional financial data.

"Fourth quarter net income of $1.038 billion provided a strong finish to an excellent year financially, strategically, and operationally," commented Jay Fishman, Chairman and Chief Executive Officer. "We achieved record levels of net income per diluted share for both the quarter and the full year of $3.11 and $10.70, respectively, benefitting from strong underwriting and investment results, as well as our ongoing strategy of returning excess capital to shareholders. For the full year, we achieved a return on equity of 14.6% and operating return on equity of 15.5%, bringing our average annual return on equity to 12.5% and average annual operating return on equity to 13.3% for the past decade.

"For the full year, all our business segments performed very well. Business and International Insurance profitability was very strong, with a combined ratio of 93.1% and operating income of over $2.3 billion. We remain very pleased with, and intend to continue, our proactive, account by account, class by class pricing strategy. Bond & Specialty Insurance had exceptional performance in 2014, with record operating income of $727 million. These results are a continuation of the superior, long-term performance this business has achieved while successfully navigating a very challenging and rapidly evolving economic environment. Results in Personal Insurance were strong, and we are especially pleased with the marketplace success of Quantum 2.0. We achieved net written premium growth in Auto in the second half of the year, as well as sequential increases in policies in force beginning in the third quarter. Importantly, loss indications for Quantum 2.0, while still preliminary, look to be in line with our expectations.

"We remain optimistic that we will continue to achieve superior returns over time across our business segments, and that, combined with our active capital management strategy, positions us to continue to deliver meaningful shareholder value."

## Consolidated Results

($ in millions and pre-tax, unless noted otherwise)

| | Three Months Ended December 31, | | | Twelve Months Ended December 31, | | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | Change | 2014 | 2013 | Change |
| **Underwriting gain:** | **$ 866** | **$ 689** | **$ 177** | **$ 2,478** | **$ 2,167** | **$ 311** |
| *Underwriting gain includes:* | | | | | | |
| *Net favorable prior year reserve development* | *351* | *259* | *92* | *941* | *840* | *101* |
| *Catastrophes, net of reinsurance* | *(41)* | *(53)* | *12* | *(709)* | *(591)* | *(118)* |
| **Net investment income** | **637** | **702** | **(65)** | **2,787** | **2,716** | **71** |
| **Other income/(expense), including interest expense** | **(65)** | **(31)** | **(34)** | **(255)** | **(104)** | **(151)** |
| **Operating income before income taxes** | **1,438** | **1,360** | **78** | **5,010** | **4,779** | **231** |
| **Income tax expense** | **415** | **379** | **36** | **1,369** | **1,212** | **157** |
| **Operating income** | **1,023** | **981** | **42** | **3,641** | **3,567** | **74** |
| **Net realized investment gains after income taxes** | **15** | **7** | **8** | **51** | **106** | **(55)** |
| **Net Income** | **$ 1,038** | **$ 988** | **$ 50** | **$ 3,692** | **$ 3,673** | **$ 19** |
| **Combined ratio** | **85.0 %** | **87.7 %** | **(2.7)** pts | **89.0 %** | **89.8 %** | **(0.8)** pts |
| Impact on combined ratio | | | | | | |
| Net favorable prior year reserve development | (5.9) pts | (4.4) pts | (1.5) pts | (3.9) pts | (3.7) pts | (0.2) pts |
| Catastrophes, net of reinsurance | 0.7 pts | 0.9 pts | (0.2) pts | 3.0 pts | 2.6 pts | 0.4 pts |
| **Underlying combined ratio** | **90.2 %** | **91.2 %** | **(1.0)** pts | **89.9 %** | **90.9 %** | **(1.0)** pts |
| **Net written premiums** | | | | | | |
| Business and International Insurance | $ 3,575 | $ 3,365 | 6 % | $ 14,636 | $ 13,512 | 8 % |
| Bond & Specialty Insurance | 525 | 551 | (5) | 2,103 | 2,030 | 4 |
| Personal Insurance | 1,736 | 1,717 | 1 | 7,165 | 7,225 | (1) |
| **Total** | **$ 5,836** | **$ 5,633** | **4 %** | **$ 23,904** | **$ 22,767** | **5 %** |

## Fourth Quarter 2014 Results

*(All comparisons vs. fourth quarter 2013, unless noted otherwise)*

Net income of $1.038 billion after-tax increased $50 million, or 5%, primarily due to an increase in operating income. Operating income of $1.023 billion after-tax increased $42 million, or 4%, driven by a higher underwriting gain, partially offset by lower net investment income and an increase in other expense.

Underwriting results

- The combined ratio improved 2.7 points to 85.0% due to higher net favorable prior year reserve development (1.5 points), an improved underlying combined ratio (1.0 point), and lower catastrophe losses (0.2 points).

- The underlying combined ratio improved 1.0 point to 90.2% due to the benefits of earned pricing that exceeded loss cost trends.

- Net favorable prior year reserve development occurred in all segments. Catastrophe losses were primarily due to a wind and hail storm in the Midwest region of the United States, as well as increases in estimated losses related to certain wind and hail storms that occurred in the second quarter.

Net investment income of $637 million pre-tax ($513 million after-tax) decreased due to lower reinvestment rates in the fixed income portfolio and lower returns in the non-fixed income portfolio. Other expense of $65 million pre-tax increased primarily due to the benefit of several items that occurred in the prior year quarter.

Net written premiums of $5.836 billion increased 4% primarily driven by growth in domestic business insurance and the inclusion of Dominion.

**Full Year 2014 Results**

*(All comparisons vs. full year 2013, unless noted otherwise)*

Net income of $3.692 billion after-tax increased $19 million, or 1%, as an increase in operating income was mostly offset by a reduction in net realized investment gains. Prior year net realized investment gains included a significant gain related to a short position in U.S. Treasury futures contracts. Operating income of $3.641 billion after-tax increased $74 million, or 2%, primarily driven by a higher underwriting gain and higher net investment income, partially offset by an increase in other expense. Operating income in the prior year included the benefits of a favorable legal settlement of $91 million pre-tax ($59 million after-tax) and a favorable tax settlement of $63 million. Operating income in the current year included a $76 million pre-tax ($49 million after-tax) benefit recorded in the first quarter resulting from a reduction in the estimated liability for state assessments to be paid by the company related to workers' compensation premiums.

Underwriting results

- The combined ratio improved 0.8 points to 89.0% due to an improved underlying combined ratio (1.0 points) and higher net favorable prior year reserve development (0.2 points), partially offset by higher catastrophe losses (0.4 points).

- The underlying combined ratio improved 1.0 point to 89.9% primarily due to the benefits of earned pricing that exceeded loss cost trends and the above mentioned reduction in the estimated liability for state assessments.

- Net favorable prior year reserve development occurred in all segments. Catastrophe losses were primarily due to wind, hail and winter storms in several regions in the United States.

Net investment income of $2.787 billion pre-tax ($2.216 billion after-tax) increased primarily due to strong private equity performance and higher real estate partnership returns, partially offset by lower reinvestment rates in the fixed income portfolio. Other expense of $255 million pre-tax increased primarily due to the inclusion in the prior year of the above mentioned favorable legal settlement, a gain from the sale of renewal rights related to the company's National Flood Insurance Program (NFIP) and the benefit of several items that occurred in the prior year quarter.

Net written premiums of $23.904 billion increased 5% primarily due to the inclusion of Dominion and growth in domestic business insurance.

**Shareholders' Equity**

Shareholders' equity of $24.836 billion decreased 2% from the end of third quarter 2014 and was comparable to year-end 2013. Included in shareholders' equity were after-tax net unrealized investment gains of $1.966 billion, compared to $1.914 billion at the end of third quarter 2014 and $1.322 billion at year-end 2013. Book value per share of $77.08 increased 1% from the end of third quarter 2014 and increased 10% from year-end 2013, while adjusted book value per share of $70.98 was up slightly from the end of third quarter 2014 and increased 7% from year-end 2013.

The company repurchased 9.7 million shares during the fourth quarter and 35.8 million shares year-to-date at a total cost of $1.001 billion and $3.333 billion, respectively. The company has $1.484 billion of remaining capacity under its existing

share repurchase authorization. At the end of fourth quarter 2014, statutory capital and surplus was $21.049 billion and the ratio of debt-to-capital (excluding after-tax net unrealized investment gains) was 21.7%, well within the company's target range of 15% to 25%.

The Board of Directors today declared a quarterly dividend of $0.55 per share. This dividend is payable on March 31, 2015 to shareholders of record as of the close of business on March 10, 2015.

## Business and International Insurance Segment Financial Results

($ in millions and pre-tax, unless noted otherwise)

| | Three Months Ended December 31, | | | Twelve Months Ended December 31, | | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | Change | 2014 | 2013 | Change |
| **Underwriting gain:** | **$ 359** | **$ 290** | **$ 69** | **$ 943** | **$ 915** | **$ 28** |
| *Underwriting gain includes :* | | | | | | |
| *Net favorable prior year reserve development* | *159* | *122* | *37* | *322* | *399* | *(77)* |
| *Catastrophes, net of reinsurance* | *(11)* | *(50)* | *39* | *(367)* | *(333)* | *(34)* |
| **Net investment income** | **490** | **543** | **(53)** | **2,156** | **2,087** | **69** |
| **Other income/(expense)** | **14** | **25** | **(11)** | **46** | **160** | **(114)** |
| **Operating income before income taxes** | **863** | **858** | **5** | **3,145** | **3,162** | **(17)** |
| **Income tax expense** | **233** | **227** | **6** | **798** | **758** | **40** |
| **Operating income** | **$ 630** | **$ 631** | **$ (1)** | **$ 2,347** | **$ 2,404** | **$ (57)** |
| **Combined ratio** | **89.8 %** | **91.5 %** | **(1.7)** pts | **93.1 %** | **92.8 %** | **0.3** pts |
| Impact on combined ratio | | | | | | |
| Net favorable prior year reserve development | (4.3) pts | (3.4) pts | (0.9) pts | (2.2) pts | (3.0) pts | 0.8 pts |
| Catastrophes, net of reinsurance | 0.2 pts | 1.4 pts | (1.2) pts | 2.5 pts | 2.5 pts | 0.0 pts |
| **Underlying combined ratio** | **93.9 %** | **93.5 %** | **0.4** pts | **92.8 %** | **93.3 %** | **(0.5)** pts |
| **Net written premiums by market** | | | | | | |
| Domestic | | | | | | |
| Select Accounts | $ 630 | $ 637 | (1) % | $ 2,707 | $ 2,724 | (1) % |
| Middle Market | 1,511 | 1,373 | 10 | 6,108 | 5,862 | 4 |
| National Accounts | 255 | 255 | - | 1,047 | 1,010 | 4 |
| First Party | 373 | 354 | 5 | 1,579 | 1,552 | 2 |
| Specialized Distribution | 262 | 254 | 3 | 1,074 | 1,085 | (1) |
| Total Domestic | 3,031 | 2,873 | 5 | 12,515 | 12,233 | 2 |
| International | 544 | 492 | 11 | 2,121 | 1,279 | 66 |
| **Total** | **$ 3,575** | **$ 3,365** | **6 %** | **$ 14,636** | **$ 13,512** | **8 %** |

## Fourth Quarter 2014 Results

*(All comparisons vs. fourth quarter 2013, unless noted otherwise)*

Operating income of $630 million after-tax approximated the prior year quarter as a higher underwriting gain was offset primarily by lower net investment income.

Underwriting results

- The combined ratio improved 1.7 points to 89.8% due to lower catastrophe losses (1.2 points) and higher net favorable prior year reserve development (0.9 points), partially offset by a higher underlying combined ratio (0.4 points).

- The underlying combined ratio increased 0.4 points to 93.9% as the benefit of earned pricing that exceeded loss cost trends was more than offset by normal quarterly variability in loss activity and a modest increase in the expense ratio. The expense ratio in the prior year quarter benefited from a reduction in assessments from certain states.

- Net favorable prior year reserve development was primarily driven by better than expected loss experience in the general liability product line primarily related to excess coverages for accident years 2008 through 2012, reflecting more favorable legal and judicial environments than what the company previously expected, better than expected loss experience in the workers' compensation product line across multiple accident years, and better than expected loss experience in the commercial auto product line for accident years 2011 and 2012.

Net written premiums of $3.575 billion increased 6% primarily driven by growth in domestic business insurance and the inclusion of Dominion. Domestic net written premiums of $3.031 billion increased 5% driven by continued positive renewal premium changes, increased new business volume and retention that remained strong and improved from recent quarters.

**Full Year 2014 Results**

*(All comparisons vs. full year 2013, unless noted otherwise)*

Operating income of $2.347 billion after-tax decreased $57 million, or 2%, as the pre-tax impact of higher net investment income and a higher underwriting gain was more than offset by a decline in other income. Operating income in the prior year included the benefits of a favorable legal settlement of $91 million pre-tax ($59 million after-tax) and a favorable tax settlement of $43 million. Operating income in the current year included a $76 million pre-tax ($49 million after-tax) benefit recorded in the first quarter resulting from a reduction in the estimated liability for state assessments to be paid by the company related to workers' compensation premiums.

Underwriting results

- The combined ratio increased 0.3 points to 93.1% as the benefit of an improved underlying combined ratio (0.5 points) was more than offset by lower net favorable prior year reserve development (0.8 points).

- The underlying combined ratio improved 0.5 points to 92.8% due to the benefits of earned pricing that exceeded loss cost trends and the above mentioned reduction in the estimated liability for state assessments related to workers' compensation premiums, partially offset by higher non-catastrophe weather-related losses and higher large loss activity.

- Net favorable prior year reserve development resulted from (i) better than expected loss experience in the general liability product line for accident years 2012 and prior as well as the property product line for accident years 2010 through 2013, (ii) a $162 million pre-tax benefit resulting from better than expected loss experience related to, and the commutation of reinsurance treaties associated with, a workers' compensation reinsurance pool, partially offset by (iii) a $250 million pre-tax increase to asbestos reserves, (iv) an $87 million pre-tax increase to environmental reserves, (v) a $77 million pre-tax increase to unallocated loss adjusted expense (ULAE) reserves for interest awarded in a court decision received in the third quarter for which the settlement amount had been previously recognized and (vi) higher than expected loss experience related to the liability coverages in the commercial multi-peril product line for accident years 2010 through 2013.

Other income of $46 million pre-tax decreased primarily due to the inclusion in the prior year of the above mentioned favorable legal settlement.

Net written premiums of $14.636 billion increased 8% primarily driven by the inclusion of Dominion and growth in domestic business insurance. Domestic net written premiums of $12.515 billion increased 2% driven by continued positive renewal premium changes and higher retention levels.

## Bond & Specialty Insurance Segment Financial Results

($ in millions and pre-tax, unless noted otherwise)

| | Three Months Ended December 31, | | | Twelve Months Ended December 31, | | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | Change | 2014 | 2013 | Change |
| **Underwriting gain:** | **$ 260** | **$ 183** | **$ 77** | **$ 804** | **$ 520** | **$ 284** |
| *Underwriting gain includes :* | | | | | | |
| *Net favorable prior year reserve development* | *180* | *101* | *79* | *450* | *232* | *218* |
| *Catastrophes, net of reinsurance* | *-* | *(1)* | *1* | *(6)* | *(8)* | *2* |
| **Net investment income** | **60** | **65** | **(5)** | **252** | **260** | **(8)** |
| **Other income/(expense)** | **4** | **5** | **(1)** | **19** | **20** | **(1)** |
| **Operating income before income taxes** | **324** | **253** | **71** | **1,075** | **800** | **275** |
| **Income tax expense** | **108** | **79** | **29** | **348** | **227** | **121** |
| **Operating income** | **$ 216** | **$ 174** | **$ 42** | **$ 727** | **$ 573** | **$ 154** |
| **Combined ratio** | **49.7 %** | **63.7 %** | **(14.0)** pts | **60.8 %** | **73.4 %** | **(12.6)** pts |
| Impact on combined ratio | | | | | | |
| Net favorable prior year reserve development | (34.4) pts | (20.1) pts | (14.3) pts | (21.7) pts | (11.7) pts | (10.0) pts |
| Catastrophes, net of reinsurance | - pts | 0.3 pts | (0.3) pts | 0.3 pts | 0.4 pts | (0.1) pts |
| **Underlying combined ratio** | **84.1 %** | **83.5 %** | **0.6** pts | **82.2 %** | **84.7 %** | **(2.5)** pts |
| **Net written premiums** | | | | | | |
| Management Liability | $ 336 | $ 372 | (10) % | $ 1,339 | $ 1,304 | 3 % |
| Surety | 189 | 179 | 6 | 764 | 726 | 5 |
| **Total** | **$ 525** | **$ 551** | **(5) %** | **$ 2,103** | **$ 2,030** | **4 %** |

### Fourth Quarter 2014 Results

*(All comparisons vs. fourth quarter 2013, unless noted otherwise)*

Record operating income of $216 million after-tax, an increase of $42 million, or 24%, due to a higher underwriting gain.

Underwriting results

- The combined ratio improved 14.0 points to 49.7% due to higher net favorable prior year reserve development (14.3 points) and lower catastrophe losses (0.3 points), partially offset by a higher underlying combined ratio (0.6 points).

- The underlying combined ratio increased 0.6 points and remained strong at 84.1%.

- Net favorable prior year reserve development primarily resulted from better than expected loss experience in the contract surety product line for accident years 2012 and prior.

Bond & Specialty Insurance net written premiums of $525 million decreased 5% primarily due to the inclusion of a benefit in the prior year period from a change in a reinsurance program.

### Full Year 2014 Results

*(All comparisons vs. full year 2013, unless noted otherwise)*

Record operating income of $727 million after-tax, an increase of $154 million, or 27%, due to a higher underwriting gain. Prior year operating income included a $15 million benefit from a favorable tax settlement.

Underwriting results

- The combined ratio improved 12.6 points to 60.8% due to higher net favorable prior year reserve development (10.0 points), an improved underlying combined ratio (2.5 points) and lower catastrophe losses (0.1 points).

- The underlying combined ratio improved 2.5 points to 82.2% primarily driven by lower reinsurance costs.

- Net favorable prior year reserve development was primarily driven by the same factors discussed above for the fourth quarter.

Bond & Specialty Insurance net written premiums of $2.103 billion increased 4% as a result of lower reinsurance costs and higher business volume in Surety.

## Personal Insurance Segment Financial Results

($ in millions and pre-tax, unless noted otherwise)

| | Three Months Ended December 31, | | | Twelve Months Ended December 31, | | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | Change | 2014 | 2013 | Change |
| **Underwriting gain:** | **$ 247** | **$ 216** | **$ 31** | **$ 731** | **$ 732** | **$ (1)** |
| *Underwriting gain includes:* | | | | | | |
| *Net favorable prior year reserve development* | *12* | *36* | *(24)* | *169* | *209* | *(40)* |
| *Catastrophes, net of reinsurance* | *(30)* | *(2)* | *(28)* | *(336)* | *(250)* | *(86)* |
| **Net investment income** | **87** | **94** | **(7)** | **379** | **369** | **10** |
| **Other income/(expense)** | **18** | **36** | **(18)** | **80** | **103** | **(23)** |
| **Operating income before income taxes** | **352** | **346** | **6** | **1,190** | **1,204** | **(14)** |
| **Income tax expense** | **110** | **109** | **1** | **366** | **366** | **-** |
| **Operating income** | **$ 242** | **$ 237** | **$ 5** | **$ 824** | **$ 838** | **$ (14)** |
| **Combined ratio** | **85.3 %** | **86.9 %** | **(1.6)** pts | **88.7 %** | **88.9 %** | **(0.2)** pts |
| Impact on combined ratio | | | | | | |
| Net favorable prior year reserve development | (0.7) pts | (2.0) pts | 1.3 pts | (2.4) pts | (2.8) pts | 0.4 pts |
| Catastrophes, net of reinsurance | 1.7 pts | 0.1 pts | 1.6 pts | 4.7 pts | 3.4 pts | 1.3 pts |
| **Underlying combined ratio** | **84.3 %** | **88.8 %** | **(4.5)** pts | **86.4 %** | **88.3 %** | **(1.9)** pts |
| **Net written premiums** | | | | | | |
| Agency Automobile[1] | $ 792 | $ 765 | 4 % | $ 3,260 | $ 3,258 | - % |
| Agency Homeowners & Other[1] | 897 | 913 | (2) | 3,718 | 3,805 | (2) |
| Direct to Consumer | 47 | 39 | 21 | 187 | 162 | 15 |
| **Total** | **$ 1,736** | **$ 1,717** | **1 %** | **$ 7,165** | **$ 7,225** | **(1) %** |

[1] Represents business sold through agents, brokers and other intermediaries, and excludes direct to consumer.

### Fourth Quarter 2014 Results

*(All comparisons vs. fourth quarter 2013, unless noted otherwise)*

Operating income of $242 million after-tax increased $5 million, or 2%, as a higher underwriting gain was partially offset by a decline in other income and lower net investment income.

Underwriting results

- The combined ratio improved 1.6 points to 85.3% due to an improved underlying combined ratio (4.5 points), partially offset by higher catastrophe losses (1.6 points) and lower net favorable prior year reserve development (1.3 points).

- The underlying combined ratio improved 4.5 points to 84.3% primarily due to normal quarterly variability in loss activity, the benefits of earned pricing that exceeded loss cost trends, and the company's previously announced expense reduction initiatives, partially offset by the impact of higher new business volume.

- Net favorable prior year reserve development was primarily driven by better than expected loss experience in the Homeowners and Other line of business for weather-related losses, both catastrophe and non-catastrophe, primarily for accident years 2012 and 2013.

Other income of $18 million pre-tax decreased primarily due to a benefit that occurred in the prior year quarter.

Personal Insurance net written premiums of $1.736 billion increased 1% due to increased new business volume from the company's new auto product, Quantum 2.0.

**Full Year 2014 Results**
*(All comparisons vs. full year 2013, unless noted otherwise)*

Operating income of $824 million after-tax decreased $14 million, or 2%, as higher net investment income was more than offset by a decline in other income. Prior year operating income included a $5 million benefit from a favorable tax settlement.

Underwriting results

- The combined ratio improved 0.2 points to 88.7% due to an improved underlying combined ratio (1.9 points), partially offset by higher catastrophe losses (1.3 points) and lower net favorable prior year reserve development (0.4 points).

- The underlying combined ratio improved 1.9 points to 86.4% due to the benefits of earned pricing that exceeded loss cost trends and the company's previously announced expense reduction initiatives, partially offset by the impact of higher new business volume.

- Net favorable prior year reserve development was primarily driven by the same factors discussed above for the fourth quarter, as well as better than expected loss experience in Homeowners and Other for catastrophe losses in accident year 2011.

Other income of $80 million pre-tax decreased primarily due to the inclusion in the prior year of a gain from the sale of renewal rights related to the company's National Flood Insurance Program (NFIP).

Personal Insurance net written premiums of $7.165 billion decreased 1%.

**Financial Supplement and Conference Call**
The information in this press release should be read in conjunction with a financial supplement that is available on our website at www.travelers.com. Travelers management will discuss the contents of this release and other relevant topics via webcast at 9 a.m. Eastern (8 a.m. Central) on Thursday, January 22, 2015. Investors can access the call via webcast at http://investor.travelers.com or by dialing 1-800-734-8583 within the U.S. and 1-212-231-2936 outside the U.S. (use passcode 14788 for both the U.S. and international calls). Prior to the webcast, a slide presentation pertaining to the quarterly earnings will be available on the company's website.

Following the live event, an audio playback of the webcast and the slide presentation will be available at the same website. An audio playback can also be accessed by phone at 1-800-633-8284 within the U.S. and 1-402-977-9140 outside the U.S. (use reservation 21742615 for both the U.S. and international calls).

**About Travelers**
The Travelers Companies, Inc. (NYSE: TRV) is a leading provider of property casualty insurance for auto, home and business. The company's diverse business lines offer its customers a wide range of coverage sold primarily through independent agents and brokers. A component of the Dow Jones Industrial Average, Travelers has approximately 30,000 employees and operations in the United States and selected International markets. For more information, visit www.travelers.com.

From time to time, Travelers may use its website and/or social media outlets, such as Facebook and Twitter, as distribution channels of material company information. Financial and other important information regarding the company is routinely accessible through and posted on our website at http://investor.travelers.com, our Facebook page at https://www.facebook.com/travelers and our Twitter account (@Travelers) at https://twitter.com/Travelers. In addition, you may automatically receive email alerts and other information about Travelers when you enroll your email address by visiting the Email Notifications section at http://investor.travelers.com.

**Travelers is organized into the following reportable business segments:**

**Business and International Insurance**: The Business and International Insurance segment offers a broad array of property and casualty insurance and insurance related services to its clients, primarily in the United States, as well as in

Canada, the United Kingdom, the Republic of Ireland and throughout other parts of the world as a corporate member of Lloyd's.

**Bond & Specialty Insurance**: The Bond & Specialty Insurance segment provides surety, crime, management and professional liability coverages and related risk management services to a wide range of primarily domestic customers, utilizing various degrees of financially-based underwriting approaches.

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

* * * * *

**Forward-Looking Statement**

This press release 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. Words such as "may", "will", "should", "likely", "anticipates", "expects", "intends", "plans", "projects", "believes", "estimates" and similar expressions are used to identify these forward-looking statements. Specifically, statements about the company's outlook, share repurchase plans, expected margin improvement, potential returns, future pension plan contributions and the potential impact of investment markets and other economic conditions on the company's investment portfolio and underwriting results, among others, are forward looking, and the company may also make forward-looking statements about, among other things:

- its results of operations and financial condition (including, among other things, premium volume, premium rates, net and operating income, investment income and performance, loss costs, return on equity, and expected current returns and combined ratios);
- the sufficiency of the company's asbestos and other reserves;
- the impact of emerging claims issues as well as other insurance and non-insurance litigation;
- the cost and availability of reinsurance coverage;
- catastrophe losses;
- the impact of investment, economic and underwriting market conditions; and
- strategic initiatives, including initiatives, such as in Personal Insurance, to improve profitability and competitiveness.

The company cautions investors that 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 and adversely affect the company's results of operations, its financial position and/or liquidity, and could adversely impact the company's ratings, the company's ability to raise capital and the availability and cost of reinsurance;
- during or following a period of financial market disruption or economic downturn, the company's business could be materially and adversely affected;
- if actual claims exceed the company's claims and claim adjustment expense reserves, or if changes in the estimated level of claims and claim adjustment expense reserves are necessary, the company's financial results could be materially and adversely affected;
- the company's investment portfolio may suffer reduced returns or material realized or unrealized losses;
- the company's business could be harmed because of its potential exposure to asbestos and environmental claims and related litigation;
- 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;

- the effects of emerging claim and coverage issues on the company's business are uncertain;
- the intense competition that the company faces could harm its ability to maintain or increase its business volumes and profitability;
- the company may not be able to collect all amounts due to it from reinsurers and reinsurance coverage may not be available to the company in the future at commercially reasonable rates or at all;
- the company is exposed to credit risk in certain of its business and investment operations including reinsurance or structured settlements;
- within the United States, the company's businesses are heavily regulated by the states in which it conducts business, including licensing and supervision, and changes in regulation may reduce the company's profitability and limit its growth;
- changes in state or federal regulations or enforcement practices could impose significant burdens on the company and otherwise adversely impact the company's results;
- a downgrade in the company's claims-paying and financial strength ratings could adversely impact the company's business volumes, adversely impact the company's ability to access the capital markets and increase the company's borrowing costs;
- the inability of the company's insurance subsidiaries to pay dividends to the company's holding company in sufficient amounts would harm the company's ability to meet its obligations, pay future shareholder dividends or make future share repurchases;
- disruptions to the company's relationships with its independent agents and brokers could adversely affect the company;
- the company's efforts to develop new products, such as Quantum 2.0, or expand in targeted markets may not be successful and may create enhanced risks;
- the company may be adversely affected if its pricing and capital models provide materially different indications than actual results;
- the company's business success and profitability depend, in part, on effective information technology systems and on continuing to develop and implement improvements in technology;
- if the company experiences difficulties with technology, data and network security and/or outsourcing relationships, the company's ability to conduct its business could be negatively impacted;
- the company is subject to a number of risks associated with its business outside the United States;
- new regulations outside of the United States, including in the European Union, could adversely impact the company's results of operations and limit its growth;
- loss of or significant restriction on the use of particular types of underwriting criteria, such as credit scoring, in the pricing and underwriting of the company's products could reduce the company's future profitability;
- acquisitions and integration of acquired businesses may result in operating difficulties and other unintended consequences;
- the company could be adversely affected if its controls to ensure compliance with guidelines, policies and legal and regulatory standards are not effective;
- the company's businesses may be adversely affected if it is unable to hire and retain qualified employees;
- intellectual property is important to the company's business, and the company may be unable to protect and enforce its own intellectual property or the company may be subject to claims for infringing the intellectual property of others;
- changes to existing accounting standards may adversely impact the company's reported results;
- changes in U.S. tax laws or in the tax laws of other jurisdictions in which the company operates could adversely impact the company;

- the company's repurchase plans depend on a variety of factors, including the company's financial position, earnings, share price, catastrophe losses, maintaining capital levels commensurate with the company's desired ratings from independent rating agencies, funding of the company's qualified pension plan, capital requirements of the company's operating subsidiaries, legal requirements, regulatory constraints, other investment opportunities (including mergers and acquisitions and related financings), market conditions and other factors; and

- the company may not achieve the anticipated benefits of its transactions, its new products or its strategic initiatives or complete a transaction that is subject to closing conditions.

Our forward-looking statements speak only as of the date of this press release or as of the date they are made, and we undertake no obligation to update forward-looking statements. For a more detailed discussion of these factors, see the information under the captions "Risk Factors" in our most recent annual report on Form 10-K filed with the Securities and Exchange Commission (SEC) on February 13, 2014 and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our most recent annual report on Form 10-K as updated by our current report on Form 8-K filed with the SEC on September 10, 2014 and our quarterly report on Form 10-Q filed with the SEC.

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## GLOSSARY OF FINANCIAL MEASURES AND RECONCILIATIONS OF NON-GAAP MEASURES TO GAAP MEASURES

The following measures are used by the company's management to evaluate financial performance against historical results and establish targets on a consolidated basis. In some cases, these measures are considered non-GAAP financial measures under applicable SEC rules because they are not displayed as separate line items in the consolidated financial statements or are not required to be disclosed in the notes to financial statements or, in some cases, include or exclude certain items not ordinarily included or excluded in the most comparable GAAP financial measure. Reconciliations of non-GAAP measures to their most directly comparable GAAP measures also follow.

In the opinion of the company's management, a discussion of these measures provides investors, financial analysts, rating agencies and other financial statement users with a better understanding of the significant factors that comprise the company's periodic results of operations and how management evaluates the company's financial performance. Internally, the company's management uses these measures to evaluate performance against historical results, to establish financial targets on a consolidated basis and for other reasons, which are discussed below.

Some of these measures exclude net realized investment gains (losses), net of tax, and/or net unrealized investment gains (losses), net of tax, which can be significantly impacted by both discretionary and other economic factors and are not necessarily indicative of operating trends.

Other companies may calculate these measures differently, and, therefore, their measures may not be comparable to those used by the company's management.

### RECONCILIATION OF OPERATING INCOME AND CERTAIN OTHER NON-GAAP MEASURES TO NET INCOME

**Operating income** is net income excluding the after-tax impact of net realized investment gains (losses) and discontinued operations. Management uses operating income to analyze each segment's performance and as a tool in making business decisions. Financial statement users also consider operating income when analyzing the results and trends of insurance companies. **Operating earnings per share** is operating income on a per common share basis.

## Reconciliation of Operating Income less Preferred Dividends to Net Income

| ($ in millions, pre-tax) | Three Months Ended December 31, 2014 | Three Months Ended December 31, 2013 | Twelve Months Ended December 31, 2014 | Twelve Months Ended December 31, 2013 |
|---|---|---|---|---|
| **Operating income** | **$ 1,438** | **$ 1,360** | **$ 5,010** | **$ 4,779** |
| Net realized investment gains | 22 | 11 | 79 | 166 |
| **Net income** | **$ 1,460** | **$ 1,371** | **$ 5,089** | **$ 4,945** |

| ($ in millions, after-tax) | Three Months Ended December 31, 2014 | Three Months Ended December 31, 2013 | Twelve Months Ended December 31, 2014 | Twelve Months Ended December 31, 2013 |
|---|---|---|---|---|
| **Operating income** | **$ 1,023** | **$ 981** | **$ 3,641** | **$ 3,567** |
| Net realized investment gains | 15 | 7 | 51 | 106 |
| **Net income** | **$ 1,038** | **$ 988** | **$ 3,692** | **$ 3,673** |

| | Twelve Months Ended December 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| ($ in millions, after-tax) | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 |
| Operating income, less preferred dividends | $ 3,641 | $ 3,567 | $ 2,441 | $ 1,389 | $ 3,040 | $ 3,597 | $ 3,191 | $ 4,496 | $ 4,195 | $ 2,020 |
| Preferred dividends | - | - | - | 1 | 3 | 3 | 4 | 4 | 5 | 6 |
| **Operating income** | **3,641** | **3,567** | **2,441** | **1,390** | **3,043** | **3,600** | **3,195** | **4,500** | **4,200** | **2,026** |
| Net realized investment gains (losses) | 51 | 106 | 32 | 36 | 173 | 22 | (271) | 101 | 8 | 35 |
| **Income from continuing operations** | **3,692** | **3,673** | **2,473** | **1,426** | **3,216** | **3,622** | **2,924** | **4,601** | **4,208** | **2,061** |
| Discontinued operations | - | - | - | - | - | - | - | - | - | (439) |
| **Net income** | **$ 3,692** | **$ 3,673** | **$ 2,473** | **$ 1,426** | **$ 3,216** | **$ 3,622** | **$ 2,924** | **$ 4,601** | **$ 4,208** | **$ 1,622** |

## Reconciliation of Operating Earnings per Share to Net Income per Share on a Basic and Diluted Basis

| | Three Months Ended December 31, 2014 | Three Months Ended December 31, 2013 | Twelve Months Ended December 31, 2014 | Twelve Months Ended December 31, 2013 |
|---|---|---|---|---|
| **Basic earnings per share** | | | | |
| **Operating income** | **$ 3.11** | **$ 2.71** | **$ 10.67** | **$ 9.56** |
| Net realized investment gains | 0.04 | 0.02 | 0.15 | 0.28 |
| **Net income** | **$ 3.15** | **$ 2.73** | **$ 10.82** | **$ 9.84** |
| **Diluted earnings per share** | | | | |
| **Operating income** | **$ 3.07** | **$ 2.68** | **$ 10.55** | **$ 9.46** |
| Net realized investment gains | 0.04 | 0.02 | 0.15 | 0.28 |
| **Net income** | **$ 3.11** | **$ 2.70** | **$ 10.70** | **$ 9.74** |

### Reconciliation of Operating Income by Segment to Total Operating Income

| ($ in millions, after-tax) | Three Months Ended December 31, 2014 | Three Months Ended December 31, 2013 | Twelve Months Ended December 31, 2014 | Twelve Months Ended December 31, 2013 |
|---|---|---|---|---|
| Business and International Insurance | $ 630 | $ 631 | $ 2,347 | $ 2,404 |
| Bond & Specialty Insurance | 216 | 174 | 727 | 573 |
| Personal Insurance | 242 | 237 | 824 | 838 |
| Total segment operating income | 1,088 | 1,042 | 3,898 | 3,815 |
| Interest Expense and Other | (65) | (61) | (257) | (248) |
| **Total operating income** | **$ 1,023** | **$ 981** | **$ 3,641** | **$ 3,567** |

## RECONCILIATION OF ADJUSTED SHAREHOLDERS' EQUITY TO SHAREHOLDERS' EQUITY AND OPERATING RETURN ON EQUITY TO RETURN ON EQUITY

**Average shareholders' equity** is (a) the sum of total shareholders' equity excluding preferred stock at the beginning and end of each of the quarters for the period presented divided by (b) the number of quarters in the period presented times two. **Adjusted shareholders' equity** is shareholders' equity excluding net unrealized investment gains (losses), net of tax, net realized investment gains (losses), net of tax, for the period presented, preferred stock and discontinued operations. **Adjusted average shareholders' equity** is average shareholders' equity excluding net unrealized investment gains (losses), net of tax, for all quarters included in the calculation and, for each quarterly period included in the calculation, that quarter's net realized investment gains (losses), net of tax and discontinued operations.

### Reconciliation of Adjusted Shareholders' Equity to Shareholders' Equity

| ($ in millions) | As of December 31, 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Adjusted shareholders' equity** | **$ 22,819** | **$ 23,368** | **$ 22,270** | **$ 21,570** | **$ 23,375** | **$ 25,458** | **$ 25,647** | **$ 25,783** | **$ 24,545** | **$ 22,227** | **$ 20,087** |
| Net unrealized investment gains (losses), net of tax | 1,966 | 1,322 | 3,103 | 2,871 | 1,859 | 1,856 | (146) | 620 | 453 | 327 | 866 |
| Net realized investment gains (losses), net of tax | 51 | 106 | 32 | 36 | 173 | 22 | (271) | 101 | 8 | 35 | (28) |
| Preferred stock | - | - | - | - | 68 | 79 | 89 | 112 | 129 | 153 | 188 |
| Discontinued operations | - | - | - | - | - | - | - | - | - | (439) | 88 |
| **Shareholders' equity** | **$ 24,836** | **$ 24,796** | **$ 25,405** | **$ 24,477** | **$ 25,475** | **$ 27,415** | **$ 25,319** | **$ 26,616** | **$ 25,135** | **$ 22,303** | **$ 21,201** |

**Return on equity** is the ratio of annualized net income less preferred dividends to average shareholders' equity for the periods presented. **Operating return on equity** is the ratio of annualized operating income less preferred dividends to adjusted average shareholders' equity for the periods presented. In the opinion of the company's management, these are important indicators of how well management creates value for its shareholders through its operating activities and its capital management.

**Calculation of Operating Return on Equity and Return on Equity**

| ($ in millions, after-tax) | Three Months Ended December 31, 2014 | Three Months Ended December 31, 2013 | Twelve Months Ended December 31, 2014 | Twelve Months Ended December 31, 2013 |
|---|---|---|---|---|
| Annualized operating income | $ 4,092 | $ 3,924 | $ 3,641 | $ 3,567 |
| Adjusted average shareholders' equity | 23,131 | 23,360 | 23,447 | 23,004 |
| **Operating return on equity** | **17.7%** | **16.8%** | **15.5%** | **15.5%** |
| Annualized net income | $ 4,151 | $ 3,950 | $ 3,692 | $ 3,673 |
| Average shareholders' equity | 25,078 | 24,804 | 25,264 | 25,099 |
| **Return on equity** | **16.6%** | **15.9%** | **14.6%** | **14.6%** |

**Average annual operating return on equity** over a period is the ratio of:
a) the sum of operating income less preferred dividends for the periods presented to
b) the sum of: 1) the sum of the adjusted average shareholders' equity for all full years in the period presented, and 2) for partial years in the period presented, the number of quarters in that partial year divided by four, multiplied by the adjusted average shareholders' equity of the partial year.

**Calculation of Average Annual Operating Return on Equity from January 1, 2005 through December 31, 2014**

| | Twelve Months Ended December 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| ($ in millions) | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 |
| Operating income, less preferred dividends | $ 3,641 | $ 3,567 | $ 2,441 | $ 1,389 | $ 3,040 | $ 3,597 | $ 3,191 | $ 4,496 | $ 4,195 | $ 2,020 |
| Adjusted average shareholders' equity | 23,447 | 23,004 | 22,158 | 22,806 | 24,285 | 25,777 | 25,668 | 25,350 | 23,381 | 21,118 |
| Operating return on equity | 15.5% | 15.5% | 11.0% | 6.1% | 12.5% | 14.0% | 12.4% | 17.7% | 17.9% | 9.6% |
| **Average annual operating return on equity for the period Jan. 1, 2005 through Dec. 31, 2014** | **13.3%** | | | | | | | | | |

## RECONCILIATION OF PRE-TAX UNDERWRITING GAIN EXCLUDING CERTAIN ITEMS TO NET INCOME

**Underwriting gain** is net earned premiums and fee income less claims and claim adjustment expenses and insurance-related expenses. In the opinion of the company's management, it is important to measure the profitability of each segment excluding the results of investing activities, which are managed separately from the insurance business. This measure is used to assess each segment's business performance and as a tool in making business decisions. **Pre-tax underwriting gain, excluding the impact of catastrophes and net favorable prior year loss reserve development**, is the underwriting gain adjusted to exclude claims and claim adjustment expenses, reinstatement premiums and assessments related to catastrophes and loss reserve development related to time periods prior to the current year. In the opinion of the company's management, this measure is meaningful to users of the financial statements to understand the company's periodic earnings and the variability of earnings caused by the unpredictable nature (i.e., the timing and amount) of catastrophes and loss reserve development. This measure is also referred to as **underlying underwriting margin** or **underlying underwriting gain**.

A **catastrophe** is a severe loss, resulting from natural and man-made events, including risks such as fire, earthquake, windstorm, explosion, terrorism and other similar events. Each catastrophe has unique characteristics, and catastrophes are not predictable as to timing or amount. Their effects are included in net and operating income and claims and claim

adjustment expense reserves upon occurrence. A catastrophe may result in the payment of reinsurance reinstatement premiums and assessments from various pools. In the opinion of the company's management, a discussion of the impact of catastrophes is meaningful to users of the financial statements to understand the company's periodic earnings and the variability in periodic earnings caused by the unpredictable nature of catastrophes.

**Net favorable (unfavorable) prior year loss reserve development** is the increase or decrease in incurred claims and claim adjustment expenses as a result of the re-estimation of claims and claim adjustment expense reserves at successive valuation dates for a given group of claims, which may be related to one or more prior years. In the opinion of the company's management, a discussion of loss reserve development is meaningful to users of the financial statements as it allows them to assess the impact between prior and current year development on incurred claims and claim adjustment expenses, net and operating income (loss), and changes in claims and claim adjustment expense reserve levels from period to period**.**

**Reconciliation of Pre-tax Underwriting Gain (Excluding the Impact of Catastrophes and Net Favorable Prior Year Loss Reserve Development) to Net Income**

| | Three Months Ended December 31, | | Twelve Months Ended December 31, | |
|---|---|---|---|---|
| ($ in millions, after-tax except as noted) | **2014** | **2013** | **2014** | **2013** |
| Pre-tax underwriting gain excluding the impact of catastrophes and net favorable prior year loss reserve development | $ 556 | $ 483 | $ 2,246 | $ 1,918 |
| Pre-tax impact of catastrophes | (41) | (53) | (709) | (591) |
| Pre-tax impact of net favorable prior year loss reserve development | 351 | 259 | 941 | 840 |
| Pre-tax underwriting gain | 866 | 689 | 2,478 | 2,167 |
| Income tax expense on underwriting results | 315 | 254 | 894 | 725 |
| Underwriting gain | 551 | 435 | 1,584 | 1,442 |
| Net investment income | 513 | 562 | 2,216 | 2,186 |
| Other income/(expense), including interest expense | (41) | (16) | (159) | (61) |
| **Operating income** | **1,023** | **981** | **3,641** | **3,567** |
| Net realized investment gains | 15 | 7 | 51 | 106 |
| **Net income** | **$ 1,038** | **$ 988** | **$ 3,692** | **$ 3,673** |

**COMBINED RATIO AND ADJUSTMENTS FOR UNDERLYING COMBINED RATIO**

**Combined ratio:** For Statutory Accounting Practices (SAP), the combined ratio is the sum of the SAP loss and LAE ratio and the SAP underwriting expense ratio as defined in the statutory financial statements required by insurance regulators. The combined ratio as used in this earnings release is the equivalent of, and is calculated in the same manner as, the SAP combined ratio except that the SAP underwriting expense ratio is based on net *written* premium and the underwriting expense ratio as used in this earnings release is based on net *earned* premiums.

For SAP, loss and LAE ratio is the ratio of incurred losses and loss adjustment expenses less certain administrative services fee income to net earned premiums as defined in the statutory financial statements required by insurance regulators. The loss and LAE ratio as used in this earnings release is calculated in the same manner as the SAP ratio.

For SAP, the underwriting expense ratio is the ratio of underwriting expenses incurred (including commissions paid), less certain administrative services fee income and billing and policy fees, to net *written* premiums as defined in the statutory financial statements required by insurance regulators. The underwriting expense ratio as used in this earnings release, is the ratio of underwriting expenses (including the amortization of deferred acquisition costs), less certain administrative services fee income and billing and policy fees, to net *earned* premiums.

The combined ratio, loss and LAE ratio, and underwriting expense ratio are used as indicators of the company's underwriting discipline, efficiency in acquiring and servicing its business and overall underwriting profitability. A combined ratio under 100% generally indicates an underwriting profit. A combined ratio over 100% generally indicates an underwriting loss.

Other companies' method of computing similarly titled measures may not be comparable to the company's method of computing these ratios.

**Underlying combined ratio** represents the combined ratio excluding the impact of net prior year reserve development and catastrophes. The underlying combined ratio is an indicator of the company's underwriting discipline and underwriting profitability for the current accident year.

**Calculation of the Combined Ratio**

| ($ in millions, pre-tax) | Three Months Ended December 31, 2014 | Three Months Ended December 31, 2013 | Twelve Months Ended December 31, 2014 | Twelve Months Ended December 31, 2013 |
|---|---|---|---|---|
| **Loss and loss adjustment expense ratio** | | | | |
| Claims and claim adjustment expenses | $ 3,209 | $ 3,327 | $ 13,870 | $ 13,307 |
| Less: | | | | |
| Policyholder dividends | 11 | 5 | 38 | 35 |
| Allocated fee income | 40 | 46 | 172 | 159 |
| **Loss ratio numerator** | **$ 3,158** | **$ 3,276** | **$ 13,660** | **$ 13,113** |
| **Underwriting expense ratio** | | | | |
| Amortization of deferred acquisition costs | $ 983 | $ 970 | $ 3,882 | $ 3,821 |
| General and administrative expenses (G&A) | 1,039 | 977 | 3,952 | 3,757 |
| Less: | | | | |
| G&A included in Interest Expense and Other | 9 | 3 | 31 | 20 |
| Allocated fee income | 69 | 63 | 266 | 236 |
| Billing and policy fees and other | 23 | 28 | 103 | 102 |
| **Expense ratio numerator** | **$ 1,921** | **$ 1,853** | **$ 7,434** | **$ 7,220** |
| **Earned premium** | **$ 5,979** | **$ 5,851** | **$ 23,713** | **$ 22,637** |
| **Combined ratio** [1] | | | | |
| Loss and loss adjustment expense ratio | 52.8% | 56.0% | 57.6% | 57.9% |
| Underwriting expense ratio | 32.2% | 31.7% | 31.4% | 31.9% |
| **Combined ratio** | **85.0%** | **87.7%** | **89.0%** | **89.8%** |

[1] For purposes of computing ratios, billing and policy fees and other (which are a component of other revenues) are allocated as a reduction of underwriting expenses. In addition, fee income is allocated as a reduction of losses and loss adjustment expenses and underwriting expenses.

## RECONCILIATION OF CERTAIN NON-GAAP MEASURES TO BOOK VALUE PER SHARE AND SHAREHOLDERS' EQUITY

**Book value per share** is total common shareholders' equity divided by the number of common shares outstanding. **Adjusted book value per share** is total common shareholders' equity excluding the after-tax impact of net unrealized investment gains and losses, divided by the number of common shares outstanding. In the opinion of the company's management, adjusted book value per share is useful in an analysis of a property casualty company's book value per share as it removes the effect of changing prices on invested assets (i.e., net unrealized investment gains (losses), net of tax), which do not have an equivalent impact on unpaid claims and claim adjustment expense reserves. **Tangible book value per share** is adjusted book value per share excluding the after-tax value of goodwill and other intangible assets divided by the number of common shares outstanding. In the opinion of the company's management, tangible book value per share is useful in an analysis of a property casualty company's book value on a nominal basis as it removes certain effects of purchase accounting (i.e., goodwill and other intangible assets), in addition to the effect of changing prices on invested assets.

**Reconciliation of Tangible and Adjusted Shareholders' Equity to Shareholders' Equity**

| ($ in millions, except per share amounts) | As of December 31, 2014 | As of December 31, 2013 |
|---|---|---|
| **Tangible shareholders' equity** | **$ 19,011** | **$ 19,543** |
| Goodwill | 3,611 | 3,634 |
| Other intangible assets | 304 | 351 |
| Less: Impact of deferred tax on other intangible assets | (56) | (54) |
| **Adjusted shareholders' equity** | **22,870** | **23,474** |
| Net unrealized investment gains, net of tax | 1,966 | 1,322 |
| **Shareholders' equity** | **$ 24,836** | **$ 24,796** |
| Common shares outstanding | 322.2 | 353.5 |
| Tangible book value per share | $ 59.00 | $ 55.29 |
| Adjusted book value per share | 70.98 | 66.41 |
| Book value per share | 77.08 | 70.15 |

**RECONCILIATION OF CERTAIN NON-GAAP MEASURES TO TOTAL CAPITALIZATION**

**Total capitalization** is the sum of total shareholders' equity and debt. **Debt-to-capital ratio excluding net unrealized gain on investments** is the ratio of debt to total capitalization excluding the after-tax impact of net unrealized investment gains and losses. In the opinion of the company's management, the debt to capital ratio is useful in an analysis of the company's financial leverage.

**Reconciliation of Total Debt and Equity Excluding Net Unrealized Investment Gain to Total Capitalization**

| ($ in millions) | As of December 31, 2014 | As of December 31, 2013 |
|---|---|---|
| Debt | $ 6,349 | $ 6,346 |
| Shareholders' equity | 24,836 | 24,796 |
| **Total capitalization** | **31,185** | **31,142** |
| Net unrealized investment gains, net of tax | 1,966 | 1,322 |
| **Total capitalization excluding net unrealized gain on investments, net of tax** | **$ 29,219** | **$ 29,820** |
| Debt-to-capital ratio | 20.4% | 20.4% |
| Debt-to-capital ratio excluding net unrealized investment gains, net of tax | 21.7% | 21.3% |

**OTHER DEFINITIONS**

**Gross written premiums** reflect the direct and assumed contractually determined amounts charged to policyholders for the effective period of the contract based on the terms and conditions of the insurance contract. **Net written premiums** reflect gross written premiums less premiums ceded to reinsurers. These are GAAP measures.

For the Business and International Insurance and Bond & Specialty Insurance segments, **retention** is the amount of premium available for renewal that was retained, excluding rate and exposure changes. For the Personal Insurance segment, retention is the ratio of the expected number of renewal policies that will be retained throughout the annual policy period to the number of available renewal base policies. For all of the segments, **renewal rate change** represents the estimated change in average premium on policies that renew, excluding exposure changes. **Exposure** is the measure of risk used in the pricing of an insurance product. The change in exposure is the amount of change in premium on policies that renew attributable to the change in portfolio risk. **Renewal premium change** represents the estimated change in average premium on policies that renew, including rate and exposure changes. **New business volume** is the amount of written premium related to new policyholders and additional products sold to existing policyholders. These are operating statistics, which are subject to change based upon a number of factors, including changes in actuarial estimates. For the Business and International Insurance segment, retention, renewal premium change and new business volumes exclude National Accounts and surety.

**Statutory capital and surplus** represents the excess of an insurance company's admitted assets over its liabilities, including loss reserves, as determined in accordance with statutory accounting practices (SAP).

**Holding company liquidity** is the total funds available at the holding company level to fund general corporate purposes, primarily the payment of shareholder dividends and debt service. These funds consist of total cash, short-term invested assets and other readily marketable securities held by the holding company.

For a glossary of other financial terms used in this press release, we refer you to the company's most recent annual report on Form 10-K filed with the Securities and Exchange Commission (SEC) as updated by the company's Current Report on Form 8-K filed with the SEC on September 10, 2014.

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