



The Travelers Companies, Inc.
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NYSE: TRV

Travelers Reports Quarterly Net and Operating Income of \$833 Million and \$827 Million, Respectively, and Net and Operating Income per Diluted Share of \$2.55 and \$2.53, Respectively

Strong Return on Equity and Operating Return on Equity of 13.4% and 14.5%, Respectively

Board of Directors Approves 11% Increase in the Company's Regular Quarterly Cash Dividend to \$0.61 per Share, and Authorizes an Additional \$5.0 Billion of Share Repurchases

- Combined ratio of 88.9% reflected very strong underwriting results.
- Decline in operating income from prior year quarter primarily attributable to lower net investment income (\$104 million after-tax), a benefit from a change in state assessment law in the prior year (\$49 million after-tax), and lower net favorable prior year development (\$32 million after-tax).
- Net written premiums of \$5.897 billion were consistent with the prior year quarter.
- Total capital returned to shareholders of \$850 million in the quarter, including \$672 million in share repurchases.
- Book value per share of \$77.96 increased 7% from the prior year quarter end and 1% from year-end 2014. Adjusted book value per share of \$71.45 increased 5% and 1%, respectively, from the same dates.

New York, April 21, 2015 – The Travelers Companies, Inc. today reported net income of \$833 million, or \$2.55 per diluted share, for the quarter ended March 31, 2015, compared to net income of \$1.052 billion, or \$2.95 per diluted share, in the prior year quarter. Operating income in the current quarter was \$827 million, or \$2.53 per diluted share, compared to \$1.052 billion, or \$2.95 per diluted share, in the prior year quarter. The decrease in net and operating income primarily resulted from the factors described above. Per diluted share amounts also benefited from the impact of share repurchases.

Consolidated Highlights

	Three Months Ended March 31,		
	2015	2014	Change
<small>(\$ in millions, except for per share amounts, and after-tax, except for premiums & revenues)</small>			
Net written premiums	\$ 5,897	\$ 5,873	- %
Total revenues	\$ 6,626	\$ 6,708	(1)
Operating income	\$ 827	\$ 1,052	(21)
<i>per diluted share</i>	\$ 2.53	\$ 2.95	(14)
Net income	\$ 833	\$ 1,052	(21)
<i>per diluted share</i>	\$ 2.55	\$ 2.95	(14)
Diluted weighted average shares outstanding	324.5	354.6	(8)
Combined ratio	88.9%	85.7%	3.2 pts
Underlying combined ratio	90.3%	88.2%	2.1 pts
Operating return on equity	14.5%	17.8%	(3.3) pts
Return on equity	13.4%	16.8%	(3.4) pts

	Change from				
	March 31, 2015	December 31, 2014	March 31, 2014	December 31, 2014	March 31, 2014
Book value per share	\$ 77.96	\$ 77.08	\$ 73.06	1 %	7 %
Adjusted book value per share	71.45	70.98	68.25	1	5

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

“We were very pleased with our first quarter operating income of \$827 million and operating return on equity of 14.5%,” commented Jay Fishman, Chairman and Chief Executive Officer. “Underwriting results remained very strong, as evidenced by our combined ratio of 88.9%, while net investment income declined due to lower private equity and fixed income returns. Also during the quarter, we returned \$850 million to shareholders, including \$178 million of dividends and \$672 million in share repurchases. Today, our Board of Directors announced an 11% increase in our quarterly dividend, raising it to \$0.61 per share, marking 11 consecutive years of dividend increases with a compound annual growth rate of nearly 10%. The Board also authorized an additional \$5 billion of share repurchases.

“Business and International Insurance posted a strong combined ratio of 93.3%. We were particularly pleased that in our domestic business we achieved a record level of retention while posting positive renewal rate change. New business was up 16% domestically as cumulative price increases over the past four years resulted in an increase in the number of new business opportunities that met our return thresholds. Bond & Specialty Insurance results also remained very strong, producing a combined ratio of 76.1%. In Personal Insurance, we posted a very solid combined ratio of 83.5%. Our Agency Auto business continued to perform well with net written premium growth of 4% and policies in force growth of nearly 2% in the quarter.

“Our performance this quarter is an encouraging start to the year, and our strategies remain unchanged. We do continue to note the severity of weather patterns, as evidenced by another very difficult winter on the East Coast and prolonged drought on the West Coast. In that regard, we continue to refine our highly segmented underwriting and pricing analytics to ensure that we are appropriately reflecting this uncertainty. We remain committed to delivering superior profitability and returns on equity over time.”

Consolidated Results

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

	Three Months Ended March 31,		
	2015	2014	Change
Underwriting gain:	\$ 620	\$ 791	\$ (171)
<i>Underwriting gain includes:</i>			
<i>Net favorable prior year reserve development</i>	243	294	(51)
<i>Catastrophes, net of reinsurance</i>	(162)	(149)	(13)
Net investment income	592	736	(144)
Other income/(expense), including interest expense	(74)	(58)	(16)
Operating income before income taxes	1,138	1,469	(331)
Income tax expense	311	417	(106)
Operating income	827	1,052	(225)
Net realized investment gains after income taxes	6	-	6
Net Income	\$ 833	\$ 1,052	\$ (219)
Combined ratio	88.9 %	85.7 %	3.2 pts
<i>Impact on combined ratio</i>			
<i>Net favorable prior year reserve development</i>	(4.1) pts	(5.1) pts	1.0 pts
<i>Catastrophes, net of reinsurance</i>	2.7 pts	2.6 pts	0.1 pts
Underlying combined ratio	90.3 %	88.2 %	2.1 pts
Net written premiums			
Business and International Insurance	\$ 3,797	\$ 3,772	1 %
Bond & Specialty Insurance	478	482	(1)
Personal Insurance	1,622	1,619	-
Total	\$ 5,897	\$ 5,873	- %

First Quarter 2015 Results

(All comparisons vs. first quarter 2014, unless noted otherwise)

Net income of \$833 million after-tax and operating income of \$827 million after-tax decreased \$219 million and \$225 million, respectively, primarily driven by lower net investment income, a lower underlying underwriting gain (i.e., excluding net favorable prior year reserve development and catastrophe losses), and lower net favorable prior year reserve development. The underlying underwriting gain in the prior year quarter benefitted from a \$49 million after-tax (\$76 million pre-tax) reduction in the estimated liability for state assessments to be paid by the Company related to workers' compensation premiums due to a change in state law.

Underwriting results

- The combined ratio increased 3.2 points to 88.9% due to a higher underlying combined ratio (2.1 points), lower net favorable prior year reserve development (1.0 points) and higher catastrophe losses (0.1 points).
- The underlying combined ratio increased 2.1 points to 90.3%, primarily driven by an increase in the expense ratio (1.8 points) and the underlying loss ratio (0.3 points). The expense ratio increased primarily due to the inclusion in the prior year quarter of the above mentioned state assessments benefit (1.3 points).
- Net favorable prior year reserve development occurred in all segments. Catastrophe losses were due to a winter storm in the eastern United States.

Net investment income of \$592 million pre-tax (\$478 million after-tax) decreased primarily due to lower private equity and fixed income returns. Private equity returns were particularly high in the prior year quarter and were impacted in the current quarter by lower valuations for energy-related investments. Fixed income returns declined due to lower reinvestment rates and modestly lower fixed income investments, reflecting a reduction in operating cash flows this quarter driven by the impact of the Company's \$579 million payment related to the settlement of the Asbestos Direct Action Litigation.

Net written premiums of \$5.897 billion increased slightly from the prior year quarter, benefitting from positive renewal premium changes in all segments and higher retention and new business volumes in Business and International Insurance and Personal Insurance, partially offset by the impact of changes in the timing and structure of certain of the Company's reinsurance treaties and the impact of changes in foreign currency exchange rates.

Shareholders' Equity

Shareholders' equity of \$24.847 billion increased slightly compared to year-end 2014. Included in shareholders' equity were after-tax net unrealized investment gains of \$2.076 billion, compared to \$1.966 billion at year-end 2014. Book value per share of \$77.96 and adjusted book value per share of \$71.45 both increased 1% from year-end 2014. Book value per share and adjusted book value per share were both reduced by approximately \$0.75 per share in the current quarter due to the impact of changes in foreign currency exchange rates.

The Company repurchased 6.3 million shares during the first quarter at an average price of \$107.04 for a total cost of \$672 million. At the end of first quarter 2015, statutory capital and surplus was \$20.944 billion and the ratio of debt-to-capital (excluding after-tax net unrealized investment gains) was 21.8%, well within the Company's target range of 15% to 25%.

The Board of Directors today declared a quarterly dividend of \$0.61 per share, an increase of 11%. This dividend is payable on June 30, 2015, to shareholders of record as of the close of business on June 10, 2015. The Board of Directors also authorized an additional \$5.0 billion of share repurchases. This amount is in addition to the \$884 million that remained from previous authorizations as of March 31, 2015. This authorization does not have a stated expiration date. The timing and actual number of shares to be repurchased will depend on a variety of factors, including the factors described below in the Forward-Looking Statement section.

Business and International Insurance Segment Financial Results

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

	Three Months Ended March 31,		
	2015	2014	Change
Underwriting gain:	\$ 228	\$ 369	\$ (141)
<i>Underwriting gain includes:</i>			
<i>Net favorable prior year reserve development</i>	77	95	(18)
<i>Catastrophes, net of reinsurance</i>	(99)	(83)	(16)
Net investment income	454	570	(116)
Other income	8	12	(4)
Operating income before income taxes	690	951	(261)
Income tax expense	175	257	(82)
Operating income	\$ 515	\$ 694	\$ (179)
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Combined ratio	93.3 %	89.2 %	4.1 pts
<i>Impact on combined ratio</i>			
<i>Net favorable prior year reserve development</i>	(2.1) pts	(2.7) pts	0.6 pts
<i>Catastrophes, net of reinsurance</i>	2.7 pts	2.4 pts	0.3 pts
Underlying combined ratio	92.7 %	89.5 %	3.2 pts
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Net written premiums by market			
Domestic			
Select Accounts	\$ 722	\$ 718	1 %
Middle Market	1,733	1,632	6
National Accounts	299	300	-
First Party	340	387	(12)
Specialized Distribution	268	267	-
Total Domestic	3,362	3,304	2
International	435	468	(7)
Total	\$ 3,797	\$ 3,772	1 %

First Quarter 2015 Results

(All comparisons vs. first quarter 2014, unless noted otherwise)

Operating income of \$515 million after-tax decreased \$179 million primarily due to lower net investment income and a lower underlying underwriting gain. The underlying underwriting gain in the prior year quarter benefitted from a \$49 million after-tax (\$76 million pre-tax) reduction in the estimated liability for state assessments to be paid by the Company related to workers' compensation premiums due to a change in state law.

Underwriting results

- The combined ratio increased 4.1 points to 93.3%, due to a higher underlying combined ratio (3.2 points), lower net favorable prior year reserve development (0.6 points) and higher catastrophe losses (0.3 points).
- The underlying combined ratio increased 3.2 points to 92.7%, primarily driven by an increase in the expense ratio (2.7 points) and the underlying loss ratio (0.5 points). The expense ratio increased primarily due to the inclusion in the prior year quarter of the above mentioned state assessments benefit (2.1 points).
- Net favorable prior year reserve development was primarily driven by better than expected loss experience in the general liability product line, primarily related to primary coverages for accident years 2005 and prior, and better than expected loss experience in the workers' compensation line of business for accident years 2007 and prior.

Net written premiums increased 1% to \$3.797 billion. Domestic net written premiums increased 2% driven by positive renewal premium changes, an increase in retention rates, and an increase in new business volumes, partially offset by the impact of changes in the timing and structure of certain of the Company's reinsurance treaties. International net written premiums decreased 7% primarily due to the impact of changes in foreign currency exchange rates.

Bond & Specialty Insurance Segment Financial Results

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

	Three Months Ended March 31,		
	2015	2014	Change
Underwriting gain:	\$ 118	\$ 154	\$ (36)
<i>Underwriting gain includes:</i>			
<i>Net favorable prior year reserve development</i>	35	67	(32)
<i>Catastrophes, net of reinsurance</i>	(1)	(1)	-
Net investment income	56	66	(10)
Other income	5	4	1
Operating income before income taxes	179	224	(45)
Income tax expense	55	70	(15)
Operating income	\$ 124	\$ 154	\$ (30)
Combined ratio	76.1 %	68.6 %	7.5 pts
<i>Impact on combined ratio</i>			
<i>Net favorable prior year reserve development</i>	(6.9) pts	(13.2) pts	6.3 pts
<i>Catastrophes, net of reinsurance</i>	0.1 pts	0.2 pts	(0.1) pts
Underlying combined ratio	82.9 %	81.6 %	1.3 pts
Net written premiums			
Management Liability	\$ 321	\$ 324	(1) %
Surety	157	158	(1)
Total	\$ 478	\$ 482	(1) %

First Quarter 2015 Results

(All comparisons vs. first quarter 2014, unless noted otherwise)

Operating income of \$124 million after-tax decreased \$30 million due to lower net favorable prior year reserve development and lower net investment income.

Underwriting results

- The combined ratio increased 7.5 points to 76.1%, primarily driven by lower net favorable prior year reserve development (6.3 points).
- The underlying combined ratio increased 1.3 points and remained strong at 82.9%.
- Net favorable prior year reserve development primarily resulted from better than expected loss experience in the contract surety product line for accident years 2010 through 2012.

Bond & Specialty Insurance net written premiums of \$478 million approximated the prior year quarter.

Personal Insurance Segment Financial Results

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

	Three Months Ended March 31,		
	2015	2014	Change
Underwriting gain:	\$ 274	\$ 268	\$ 6
<i>Underwriting gain includes:</i>			
<i>Net favorable prior year reserve development</i>	131	132	(1)
<i>Catastrophes, net of reinsurance</i>	(62)	(65)	3
Net investment income	82	100	(18)
Other income/(expense)	12	26	(14)
Operating income before income taxes	368	394	(26)
Income tax expense	116	126	(10)
Operating income	\$ 252	\$ 268	\$ (16)
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Combined ratio	83.5 %	83.6 %	(0.1) pts
<i>Impact on combined ratio</i>			
<i>Net favorable prior year reserve development</i>	(7.5) pts	(7.5) pts	0.0 pts
<i>Catastrophes, net of reinsurance</i>	3.5 pts	3.7 pts	(0.2) pts
Underlying combined ratio	87.5 %	87.4 %	0.1 pts
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Net written premiums			
Agency Automobile ¹	\$ 822	\$ 788	4 %
Agency Homeowners & Other ¹	748	788	(5)
Direct to Consumer	52	43	21
Total	\$ 1,622	\$ 1,619	- %

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

First Quarter 2015 Results

(All comparisons vs. first quarter 2014, unless noted otherwise)

Operating income of \$252 million after-tax decreased \$16 million, primarily driven by lower net investment income and a decline in other income, partially offset by a higher underlying underwriting gain.

Underwriting results

- The combined ratio of 83.5% remained strong and reflected an improvement in Agency Automobile.
- The underlying combined ratio of 87.5% approximated the prior year quarter and remained strong for both Agency Automobile and Agency Homeowners & Other.
- Net favorable prior year reserve development was primarily driven by better than expected loss experience in the homeowners and other product line for liability coverages for accident years 2011 through 2014, for non-catastrophe weather-related losses for accident years 2013 through 2014 and for catastrophe losses primarily for accident year 2011, as well as better than expected loss experience in the auto product line for liability coverages for accident years 2010 through 2013.

Other income of \$12 million decreased primarily due to the inclusion in the prior year quarter of revenues associated with the runoff of the Company's National Flood Insurance Program (NFIP) which was sold on a renewal rights basis in 2013.

Personal Insurance net written premiums of \$1.622 billion approximated the prior year quarter. Agency Automobile net written premiums increased 4% due to higher business volume. Agency Homeowners & Other net written premiums decreased 5%, primarily driven by the impact of changes in the timing and structure of certain of the Company's reinsurance treaties.

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 Tuesday, April 21, 2015. Investors can access the call via webcast at <http://investor.travelers.com> or by dialing 1-800-747-0365 within the U.S. and 1-212-231-2920 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 21763972 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.

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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 (including rapid changes in commodity prices, such as a significant decline in oil and gas prices, as well as fluctuations in foreign currency exchange rates) 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 its 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 federal regulation 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 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 restrictions on the use of particular types of underwriting criteria, such as credit scoring, or other data or methodologies, 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 designed 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; and
- the Company's share 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.

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" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our most recent annual report on Form 10-K filed with the Securities and Exchange Commission (SEC) on February 12, 2015.

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 March 31,	
	2015	2014
Operating income	\$ 1,138	\$ 1,469
Net realized investment gains	10	1
Net income	\$ 1,148	\$ 1,470

(\$ in millions, after-tax)	Three Months Ended March 31,	
	2015	2014
Operating income	\$ 827	\$ 1,052
Net realized investment gains	6	-
Net income	\$ 833	\$ 1,052

(\$ in millions, after-tax)	Twelve Months Ended December 31,									
	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 March 31,	
	2015	2014
Basic earnings per share		
Operating income	\$ 2.56	\$ 2.98
Net realized investment gains	0.02	-
Net income	\$ 2.58	\$ 2.98
Diluted earnings per share		
Operating income	\$ 2.53	\$ 2.95
Net realized investment gains	0.02	-
Net income	\$ 2.55	\$ 2.95

Reconciliation of Operating Income by Segment to Total Operating Income

(\$ in millions, after-tax)	Three Months Ended March 31,	
	2015	2014
Business and International Insurance	\$ 515	\$ 694
Bond & Specialty Insurance	124	154
Personal Insurance	252	268
Total segment operating income	891	1,116
Interest Expense and Other	(64)	(64)
Total operating income	\$ 827	\$ 1,052

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 March 31,	
	2015	2014
Adjusted shareholders' equity	\$ 22,765	\$ 23,713
Net unrealized investment gains, net of tax	2,076	1,674
Net realized investment gains, net of tax	6	-
Shareholders' equity	\$ 24,847	\$ 25,387

(\$ 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 March 31,	
	2015	2014
Annualized operating income	\$ 3,306	\$ 4,207
Adjusted average shareholders' equity	22,817	23,594
Operating return on equity	14.5%	17.8%
Annualized net income	\$ 3,332	\$ 4,209
Average shareholders' equity	24,841	25,092
Return on equity	13.4%	16.8%

Average annual operating return on equity over a period is the ratio of:

- the sum of operating income less preferred dividends for the periods presented to
- 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 March 31, 2015

(\$ in millions)	Three Months Ended March 31,		Twelve Months Ended December 31,									
	2015	2014	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Operating income, less preferred dividends	\$ 827	\$ 1,052	\$ 3,641	\$ 3,567	\$ 2,441	\$ 1,389	\$ 3,040	\$ 3,597	\$ 3,191	\$ 4,496	\$ 4,195	\$ 2,020
Annualized operating income	3,306	4,207										
Adjusted average shareholders' equity	22,817	23,594	23,447	23,004	22,158	22,806	24,285	25,777	25,668	25,350	23,381	21,118
Operating return on equity	14.5%	17.8%	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 Mar. 31, 2015	13.4%											

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

(\$ in millions, after-tax except as noted)	Three Months Ended	
	March 31,	
	2015	2014
Pre-tax underwriting gain excluding the impact of catastrophes and net favorable prior year loss reserve development	\$ 539	\$ 646
Pre-tax impact of catastrophes	(162)	(149)
Pre-tax impact of net favorable prior year loss reserve development	243	294
Pre-tax underwriting gain	620	791
Income tax expense on underwriting results	225	284
Underwriting gain	395	507
Net investment income	478	582
Other expense, including interest expense	46	37
Operating income	827	1,052
Net realized investment gains	6	-
Net income	\$ 833	\$ 1,052

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	
	March 31,	
	2015	2014
Loss and loss adjustment expense ratio		
Claims and claim adjustment expenses	\$ 3,431	\$ 3,315
Less:		
Policyholder dividends	9	11
Allocated fee income	42	43
Loss ratio numerator	\$ 3,380	\$ 3,261
Underwriting expense ratio		
Amortization of deferred acquisition costs	\$ 963	\$ 950
General and administrative expenses (G&A)	992	881
Less:		
G&A included in Interest Expense and Other	7	7
Allocated fee income	69	64
Billing and policy fees and other	23	30
Expense ratio numerator	\$ 1,856	\$ 1,730
Earned premium	\$ 5,888	\$ 5,823
Combined ratio ¹		
Loss and loss adjustment expense ratio	57.4%	56.0%
Underwriting expense ratio	31.5%	29.7%
Combined ratio	88.9%	85.7%

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		
	March 31, 2015	December 31, 2014	March 31, 2014
Tangible shareholders' equity	\$ 18,946	\$ 19,011	\$ 19,804
Goodwill	3,590	3,611	3,624
Other intangible assets	292	304	339
Less: Impact of deferred tax on other intangible assets	(57)	(56)	(54)
Adjusted shareholders' equity	22,771	22,870	23,713
Net unrealized investment gains, net of tax	2,076	1,966	1,674
Shareholders' equity	\$ 24,847	\$ 24,836	\$ 25,387
Common shares outstanding	318.7	322.2	347.5
Tangible book value per share	\$ 59.45	\$ 59.00	\$ 57.00
Adjusted book value per share	71.45	70.98	68.25
Book value per share	77.96	77.08	73.06

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		
	March 31, 2015	December 31, 2014	March 31, 2014
Debt	\$ 6,349	\$ 6,349	\$ 6,347
Shareholders' equity	24,847	24,836	25,387
Total capitalization	31,196	31,185	31,734
Net unrealized investment gains, net of tax	2,076	1,966	1,674
Total capitalization excluding net unrealized gain on investments, net of tax	\$ 29,120	\$ 29,219	\$ 30,060
Debt-to-capital ratio	20.4%	20.4%	20.0%
Debt-to-capital ratio excluding net unrealized investment gains, net of tax	21.8%	21.7%	21.1%

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 in part dependent on the use of estimates and are therefore subject to change. 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 SEC.

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