

NYSE: TRV

**Travelers Reports Record Fourth Quarter 2020 Net Income per Diluted Share of \$5.10 and Return on Equity of 18.4%**

**Record Core Income per Diluted Share of \$4.91 and Core Return on Equity of 20.5%**

**Full Year Net Income of \$2.697 billion, up 3%, and Return on Equity of 10.0%**

**Full Year Core Income of \$2.686 billion, up 6%, and Core Return on Equity of 11.3%**

- Fourth quarter net income of \$1.310 billion and core income of \$1.262 billion.
- Consolidated combined ratio improved 5.7 points to a very strong 86.7%; underlying combined ratio improved 3.4 points to a very strong 88.7%.
- Net written premiums of \$7.269 billion, up 3% compared to the prior year quarter; full year net written premiums of \$29.732 billion, up 2% compared to the prior year.
- Strong renewal rate change in all three segments, including record renewal rate change in Business Insurance and Bond & Specialty Insurance.
- Total capital returned to shareholders of \$419 million, including \$201 million of share repurchases; full year total capital returned to shareholders of \$1.536 billion, including \$672 million of share repurchases.
- Book value per share of \$115.68, up 14% from year-end 2019; adjusted book value per share of \$99.54, up 7% from year-end 2019.
- Board of Directors declares regular quarterly cash dividend of \$0.85 per share.

**New York, January 21, 2021** — The Travelers Companies, Inc. today reported net income of \$1.310 billion, or \$5.10 per diluted share, for the quarter ended December 31, 2020, compared to \$873 million, or \$3.35 per diluted share, in the prior year quarter. Core income in the current quarter was \$1.262 billion, or \$4.91 per diluted share, compared to \$867 million, or \$3.32 per diluted share, in the prior year quarter. Core income increased primarily due to a higher underlying underwriting gain (i.e., excluding net prior year reserve development and catastrophe losses), higher net favorable prior year reserve development, higher net investment income and lower catastrophe losses. Net realized investment gains in the current quarter were \$50 million pre-tax (\$48 million after-tax), compared to \$12 million pre-tax (\$6 million after-tax) in the prior year quarter. Per diluted share amounts benefited from the impact of share repurchases.

**Consolidated Highlights**

(\$ in millions, except for per share amounts, and after-tax, except for premiums and revenues)	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2020	2019	Change	2020	2019	Change
Net written premiums	\$ 7,269	\$ 7,075	3 %	\$29,732	\$29,151	2 %
Total revenues	\$ 8,397	\$ 8,063	4	\$31,981	\$31,581	1
Net income	\$ 1,310	\$ 873	50	\$ 2,697	\$ 2,622	3
per diluted share	\$ 5.10	\$ 3.35	52	\$ 10.52	\$ 9.92	6
Core income	\$ 1,262	\$ 867	46	\$ 2,686	\$ 2,537	6
per diluted share	\$ 4.91	\$ 3.32	48	\$ 10.48	\$ 9.60	9
Diluted weighted average shares outstanding	254.8	259.0	(2)	254.6	262.3	(3)
Combined ratio	86.7 %	92.4 %	(5.7) pts	95.0 %	96.5 %	(1.5) pts
Underlying combined ratio	88.7 %	92.1 %	(3.4) pts	90.7 %	93.2 %	(2.5) pts
Return on equity	18.4 %	13.5 %	4.9 pts	10.0 %	10.5 %	(0.5) pts
Core return on equity	20.5 %	14.8 %	5.7 pts	11.3 %	10.9 %	0.4 pts

	As of		
	December 31, 2020	December 31, 2019	Change
Book value per share	\$ 115.68	\$ 101.55	14 %
Adjusted book value per share	99.54	92.76	7 %

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

“We are very pleased to report fourth quarter core income of \$1.3 billion, or \$4.91 per diluted share, and core return on equity of 21%,” said Alan Schnitzer, Chairman and Chief Executive Officer. “The results benefited from strong underlying underwriting income, driven by record net earned premiums of \$7.5 billion and an underlying combined ratio which improved 3.4 points from the prior year quarter to an excellent 88.7%. That brings full year core income to \$2.7 billion, or \$10.48 per diluted share, and full year core return on equity exceeding 11%, a terrific result in a challenging economic and operating environment. Full year core income includes record underlying underwriting profit of \$2 billion. Our high-quality investment portfolio also performed well, generating net investment income of \$572 million after-tax. Our operating results, together with our strong balance sheet, enabled us to grow adjusted book value per share by 7% during the year, after returning \$1.5 billion of excess capital to shareholders, including \$672 million of share repurchases, which we resumed in the fourth quarter.

“Our top line remained remarkably resilient this quarter and throughout the year. For the quarter, net written premiums grew 3%, driven by continued strong renewal rate change and retention in each of our three segments. In Business Insurance, we achieved record renewal rate change of 8.4%, nearly 4 points higher than the prior year quarter, while retention remained strong. In Bond & Specialty Insurance, net written premiums increased by 12%, driven by record renewal premium change of 10.9% in our domestic management liability business, including record renewal rate change. In Personal Insurance, net written premiums increased by 7%, driven by strong renewal premium change of 8.2% in our Agency Homeowners business and strong retention and new business in both Agency Auto and Agency Homeowners.

“Our ability to deliver strong results over this past year in the face of an historic pandemic, a record number of PCS catastrophe events and historically low interest rates reflects the value of underwriting excellence, our leading data and analytics, the dedication of our highly engaged and talented workforce and the significant value we bring to our customers and distribution partners. Looking forward, we believe we are well positioned to capitalize on the opportunities ahead as the economy reopens and to continue to deliver meaningful shareholder value over time.”

## Consolidated Results

(\$ in millions and pre-tax, unless noted otherwise)	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2020	2019	Change	2020	2019	Change
<b>Underwriting gain:</b>	<b>\$ 955</b>	<b>\$ 513</b>	<b>\$ 442</b>	<b>\$ 1,302</b>	<b>\$ 833</b>	<b>\$ 469</b>
<i>Underwriting gain includes:</i>						
Net favorable (unfavorable) prior year reserve development .....	180	60	120	351	(60)	411
Catastrophes, net of reinsurance .....	(29)	(85)	56	(1,613)	(886)	(727)
<b>Net investment income .....</b>	<b>677</b>	<b>616</b>	<b>61</b>	<b>2,227</b>	<b>2,468</b>	<b>(241)</b>
<b>Other income (expense), including interest expense .....</b>	<b>(66)</b>	<b>(67)</b>	<b>1</b>	<b>(294)</b>	<b>(276)</b>	<b>(18)</b>
<b>Core income before income taxes .....</b>	<b>1,566</b>	<b>1,062</b>	<b>504</b>	<b>3,235</b>	<b>3,025</b>	<b>210</b>
<b>Income tax expense .....</b>	<b>304</b>	<b>195</b>	<b>109</b>	<b>549</b>	<b>488</b>	<b>61</b>
<b>Core income .....</b>	<b>1,262</b>	<b>867</b>	<b>395</b>	<b>2,686</b>	<b>2,537</b>	<b>149</b>
<b>Net realized investment gains after income taxes .....</b>	<b>48</b>	<b>6</b>	<b>42</b>	<b>11</b>	<b>85</b>	<b>(74)</b>
<b>Net income .....</b>	<b><u>\$ 1,310</u></b>	<b><u>\$ 873</u></b>	<b><u>\$ 437</u></b>	<b><u>\$ 2,697</u></b>	<b><u>\$ 2,622</u></b>	<b><u>\$ 75</u></b>
<b>Combined ratio .....</b>	<b>86.7 %</b>	<b>92.4 %</b>	<b>(5.7) pts</b>	<b>95.0 %</b>	<b>96.5 %</b>	<b>(1.5) pts</b>
<i>Impact on combined ratio</i>						
Net (favorable) unfavorable prior year reserve development .....	(2.4) pts	(0.8) pts	(1.6) pts	(1.2) pts	0.2 pts	(1.4) pts
Catastrophes, net of reinsurance .....	0.4 pts	1.1 pts	(0.7) pts	5.5 pts	3.1 pts	2.4 pts
<b>Underlying combined ratio .....</b>	<b>88.7 %</b>	<b>92.1 %</b>	<b>(3.4) pts</b>	<b>90.7 %</b>	<b>93.2 %</b>	<b>(2.5) pts</b>
<b>Net written premiums .....</b>						
Business Insurance .....	\$ 3,631	\$ 3,703	(2)%	\$15,431	\$15,629	(1)%
Bond & Specialty Insurance .....	800	714	12	2,951	2,739	8
Personal Insurance .....	2,838	2,658	7	11,350	10,783	5
<b>Total .....</b>	<b><u>\$ 7,269</u></b>	<b><u>\$ 7,075</u></b>	<b>3 %</b>	<b><u>\$29,732</u></b>	<b><u>\$29,151</u></b>	<b>2 %</b>

### Fourth Quarter 2020 Results

(All comparisons vs. fourth quarter 2019, unless noted otherwise)

Net income of \$1.310 billion increased \$437 million due to higher core income and higher net realized investment gains. Core income of \$1.262 billion increased \$395 million, primarily due to a higher underlying underwriting gain, higher net favorable prior year reserve development, higher net investment income and lower catastrophe losses. The underlying underwriting gain benefited from higher business volumes and a lower underlying combined ratio. Net realized investment gains were \$50 million pre-tax (\$48 million after-tax), compared to \$12 million pre-tax (\$6 million after-tax) in the prior year quarter.

Combined ratio:

- The combined ratio of 86.7% improved 5.7 points due to a lower underlying combined ratio (3.4 points), higher net favorable prior year reserve development (1.6 points) and lower catastrophe losses (0.7 points).
- The underlying combined ratio of 88.7% improved 3.4 points. See below for further details by segment.
- Net favorable prior year reserve development occurred in all segments. See below for further details by segment. Catastrophe losses primarily resulted from Hurricane Zeta.

Net investment income of \$677 million pre-tax (\$572 million after-tax) increased 10%. Income from the fixed income investment portfolio decreased from the prior year quarter, primarily due to lower interest rates, partially offset by a higher average level of fixed maturity investments. Income from the non-fixed income investment portfolio increased over the prior year quarter, primarily due to higher private equity partnership returns.

Net written premiums of \$7.269 billion increased 3%. See below for further details by segment.

### **Full Year 2020 Results**

*(All comparisons vs. full year 2019, unless noted otherwise)*

Net income of \$2.697 billion increased \$75 million due to higher core income, partially offset by lower net realized investment gains. Core income of \$2.686 billion increased by \$149 million, primarily due to a higher underlying underwriting gain and net favorable prior year reserve development in the current year compared to net unfavorable prior year reserve development in the prior year, partially offset by higher catastrophe losses and lower net investment income. The underlying underwriting gain benefited from higher business volumes and a lower underlying combined ratio. Catastrophe and non-catastrophe weather-related losses in 2020 were reduced by the full \$280 million of recoveries available under the Company's 2020 Underlying Property Aggregate Catastrophe Excess-of-Loss Reinsurance Treaty in the third quarter of 2020. Catastrophe and non-catastrophe weather-related losses in 2019 were reduced by \$135 million of recoveries available under the Company's 2019 Underlying Property Aggregate Catastrophe Excess-of-Loss Reinsurance Treaty in the fourth quarter of 2019. Net realized investment gains were \$2 million pre-tax (\$11 million after-tax), compared to \$113 million pre-tax (\$85 million after-tax) in the prior year.

Combined ratio:

- The combined ratio of 95.0% improved 1.5 points due to a lower underlying combined ratio (2.5 points) and net favorable prior year reserve development in the current year compared to net unfavorable prior year reserve development in the prior year (1.4 points), partially offset by higher catastrophe losses (2.4 points).
- The underlying combined ratio of 90.7% improved 2.5 points. See below for further details by segment.
- Net favorable prior year reserve development in Personal Insurance was partially offset by net unfavorable prior year reserve development in Business Insurance. Prior year reserve development in Personal Insurance and Business Insurance included an aggregate \$403 million subrogation benefit in the third quarter of 2020 from Pacific Gas and Electric Company (PG&E) related to the 2017 and 2018 California wildfires. Net prior year reserve development in Bond & Specialty Insurance was not significant.
- Catastrophe losses included the fourth quarter event described above, as well as tornado activity in Tennessee and other wind storms and winter storms in several regions of the United States in the first quarter of 2020, severe storms in several regions of the United States and civil unrest in the second quarter of 2020 and the derecho windstorm in the midwestern region of the United States, the Glass wildfire in California, Tropical Storm Isaias, Hurricane Laura and additional wildfires in the United States in the third quarter of 2020.

Net investment income of \$2.227 billion pre-tax (\$1.908 billion after-tax) decreased 10%. Income from the fixed income investment portfolio decreased from the prior year, primarily due to lower interest rates, partially offset by a higher average level of fixed maturity investments. Income from the non-fixed income investment portfolio decreased from the prior year, primarily due to lower private equity partnership returns which reflected the impact of the disruption in global financial markets in the first quarter of 2020 associated with COVID-19.

Net written premiums of \$29.732 billion increased 2%. See below for further details by segment.

### **Shareholders' Equity**

Shareholders' equity of \$29.201 billion increased 13% over year-end 2019, driven by net income of \$2.697 billion and higher net unrealized investment gains resulting from lower interest rates, partially offset by dividends to shareholders and common share repurchases. Net unrealized investment gains included in shareholders' equity were \$5.175 billion pre-tax (\$4.074 billion after-tax), compared to net unrealized investment gains of \$2.853 billion pre-tax (\$2.246 billion after-tax) at year-end 2019. Book value per share of \$115.68 increased 14% from year-end 2019, driven by the increase in shareholders' equity and lower common shares outstanding as a result of share repurchases. Adjusted book value per share of \$99.54, which excludes net unrealized investment gains, increased 7% from year-end 2019.

The Company repurchased 1.4 million shares during the fourth quarter at an average price of \$136.78 per share for a total of \$201 million. Capacity remaining under the existing share repurchase authorization was \$1.161 billion at the end of the quarter. Also at the end of the quarter, statutory capital and surplus was \$22.180 billion, and the ratio of debt-to-capital was 18.3%. The ratio of debt-to-capital excluding after-tax net unrealized investment gains included in shareholders' equity was 20.7%, within the Company's target range of 15% to 25%.

The Board of Directors declared a regular quarterly dividend of \$0.85 per share. The dividend is payable on March 31, 2021, to shareholders of record at the close of business on March 10, 2021.

### **Business Insurance Segment Financial Results**

(\$ in millions and pre-tax, unless noted otherwise)	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2020	2019	Change	2020	2019	Change
<b>Underwriting gain (loss):</b>	<b>\$ 382</b>	<b>\$ 87</b>	<b>\$ 295</b>	<b>\$ (90)</b>	<b>\$ (195)</b>	<b>\$ 105</b>
<i>Underwriting gain (loss) includes:</i>						
Net favorable (unfavorable) prior year reserve development .....	124	8	116	(91)	(258)	167
Catastrophes, net of reinsurance .....	24	(48)	72	(645)	(470)	(175)
<b>Net investment income .....</b>	<b>502</b>	<b>451</b>	<b>51</b>	<b>1,633</b>	<b>1,816</b>	<b>(183)</b>
<b>Other income (expense) .....</b>	<b>(5)</b>	<b>—</b>	<b>(5)</b>	<b>(21)</b>	<b>(6)</b>	<b>(15)</b>
<b>Segment income before income taxes ..</b>	<b>879</b>	<b>538</b>	<b>341</b>	<b>1,522</b>	<b>1,615</b>	<b>(93)</b>
<b>Income tax expense .....</b>	<b>166</b>	<b>90</b>	<b>76</b>	<b>213</b>	<b>223</b>	<b>(10)</b>
<b>Segment income .....</b>	<b>\$ 713</b>	<b>\$ 448</b>	<b>\$ 265</b>	<b>\$ 1,309</b>	<b>\$ 1,392</b>	<b>\$ (83)</b>
<b>Combined ratio .....</b>	<b>89.8 %</b>	<b>97.5 %</b>	<b>(7.7) pts</b>	<b>100.3 %</b>	<b>100.9 %</b>	<b>(0.6) pts</b>
<i>Impact on combined ratio</i>						
Net (favorable) unfavorable prior year reserve development .....	(3.2) pts	(0.2) pts	(3.0) pts	0.6 pts	1.7 pts	(1.1) pts
Catastrophes, net of reinsurance .....	(0.6) pts	1.3 pts	(1.9) pts	4.2 pts	3.0 pts	1.2 pts
<b>Underlying combined ratio .....</b>	<b>93.6 %</b>	<b>96.4 %</b>	<b>(2.8) pts</b>	<b>95.5 %</b>	<b>96.2 %</b>	<b>(0.7) pts</b>
<b>Net written premiums by market</b>						
Domestic						
Select Accounts .....	\$ 630	\$ 675	(7)%	\$ 2,821	\$ 2,911	(3)%
Middle Market .....	2,012	2,061	(2)	8,511	8,630	(1)
National Accounts .....	241	251	(4)	996	1,051	(5)
National Property and Other .....	471	437	8	2,086	1,965	6
Total Domestic .....	3,354	3,424	(2)	14,414	14,557	(1)
International .....	277	279	(1)	1,017	1,072	(5)
<b>Total .....</b>	<b>\$3,631</b>	<b>\$3,703</b>	<b>(2)%</b>	<b>\$15,431</b>	<b>\$15,629</b>	<b>(1)%</b>

### **Fourth Quarter 2020 Results**

(All comparisons vs. fourth quarter 2019, unless noted otherwise)

Segment income for Business Insurance was \$713 million after-tax, an increase of \$265 million. Segment income increased primarily due to higher net favorable prior year reserve development, a higher underlying underwriting gain, lower catastrophe losses and higher net investment income.

Combined ratio:

- The combined ratio of 89.8% improved 7.7 points due to higher net favorable prior year reserve development (3.0 points), a lower underlying combined ratio (2.8 points) and lower catastrophe losses (1.9 points).

- The underlying combined ratio of 93.6% improved by 2.8 points, impacted by earned pricing that exceeded loss cost trends and the favorable comparison as a result of the re-estimation of losses in the prior year quarter related to the first three quarters of 2019. COVID-19 and related economic conditions had a modest net favorable impact on the underlying combined ratio.
- Net favorable prior year reserve development was primarily driven by better than expected loss experience in the workers' compensation product line for multiple accident years, partially offset by an increase to general liability reserves in our run-off book related to policies issued more than 20 years ago.

Net written premiums of \$3.631 billion decreased 2%. The benefits of continued strong retention and higher renewal rate changes were more than offset by a modest reduction in exposures and a decrease in new business volume, both impacted by COVID-19 and related economic conditions.

### **Full Year 2020 Results**

*(All comparisons vs. full year 2019, unless noted otherwise)*

Segment income for Business Insurance was \$1.309 billion after-tax, a decrease of \$83 million. Segment income decreased primarily due to lower net investment income and higher catastrophe losses, partially offset by lower net unfavorable prior year reserve development and a higher underlying underwriting gain.

Combined ratio:

- The combined ratio of 100.3% improved 0.6 points due to lower net unfavorable prior year reserve development (1.1 points) and a lower underlying combined ratio (0.7 points), partially offset by higher catastrophe losses (1.2 points).
- The underlying combined ratio of 95.5% improved 0.7 points, impacted by earned pricing that exceeded loss cost trends. COVID-19 and related economic conditions had a modest net unfavorable impact on the underlying combined ratio.
- Net unfavorable prior year reserve development was primarily driven by the following:
  - *Asbestos reserves* - an increase of \$295 million;
  - *General liability (excluding asbestos and environmental)* - higher than expected loss experience in the segment's domestic operations for primary and excess coverages for recent accident years, as well as an increase to general liability reserves in our run-off book related to policies issued more than 20 years ago;
  - *Commercial automobile* - higher than expected loss experience in the segment's domestic operations for recent accident years; and
  - *Commercial multi-peril (excluding PG&E subrogation recoveries and asbestos and environmental)* - higher than expected loss experience in the segment's domestic operations for recent accident years.

Partially offset by:

- *Workers' compensation* - better than expected loss experience in the segment's domestic operations for multiple accident years;
- *Commercial property (excluding PG&E subrogation recoveries)* - better than expected loss experience in the segment's domestic operations for multiple accident years; and
- *PG&E subrogation recoveries* - \$81 million of recoveries as described above.

Net written premiums of \$15.431 billion decreased 1%, driven by the same factors described above for the fourth quarter of 2020.

## Bond & Specialty Insurance Segment Financial Results

(\$ in millions and pre-tax, unless noted otherwise)	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2020	2019	Change	2020	2019	Change
<b>Underwriting gain:</b>	\$ 138	\$ 142	\$ (4)	\$ 346	\$ 515	\$ (169)
<i>Underwriting gain includes:</i>						
Net favorable (unfavorable) prior year reserve development	32	20	12	(1)	65	(66)
Catastrophes, net of reinsurance	(1)	(1)	—	(11)	(5)	(6)
<b>Net investment income</b>	<b>58</b>	<b>60</b>	<b>(2)</b>	<b>213</b>	<b>233</b>	<b>(20)</b>
<b>Other income</b>	<b>8</b>	<b>5</b>	<b>3</b>	<b>21</b>	<b>21</b>	<b>—</b>
<b>Segment income before income taxes</b>	<b>204</b>	<b>207</b>	<b>(3)</b>	<b>580</b>	<b>769</b>	<b>(189)</b>
<b>Income tax expense</b>	<b>40</b>	<b>40</b>	<b>—</b>	<b>107</b>	<b>151</b>	<b>(44)</b>
<b>Segment income</b>	<b>\$ 164</b>	<b>\$ 167</b>	<b>\$ (3)</b>	<b>\$ 473</b>	<b>\$ 618</b>	<b>\$ (145)</b>
<b>Combined ratio</b>	<b>80.9 %</b>	<b>78.6 %</b>	<b>2.3 pts</b>	<b>87.4 %</b>	<b>79.5 %</b>	<b>7.9 pts</b>
<i>Impact on combined ratio</i>						
Net (favorable) unfavorable prior year reserve development	(4.2) pts	(2.9) pts	(1.3) pts	— pts	(2.5) pts	2.5 pts
Catastrophes, net of reinsurance	0.1 pts	0.2 pts	(0.1) pts	0.4 pts	0.2 pts	0.2 pts
<b>Underlying combined ratio</b>	<b>85.0 %</b>	<b>81.3 %</b>	<b>3.7 pts</b>	<b>87.0 %</b>	<b>81.8 %</b>	<b>5.2 pts</b>
<b>Net written premiums</b>						
Domestic						
Management Liability	\$ 463	\$ 411	13 %	\$ 1,769	\$ 1,605	10 %
Surety	202	206	(2)	845	866	(2)
Total Domestic	665	617	8	2,614	2,471	6
International	135	97	39	337	268	26
<b>Total</b>	<b>\$ 800</b>	<b>\$ 714</b>	<b>12 %</b>	<b>\$ 2,951</b>	<b>\$ 2,739</b>	<b>8 %</b>

### Fourth Quarter 2020 Results

(All comparisons vs. fourth quarter 2019, unless noted otherwise)

Segment income for Bond & Specialty Insurance was \$164 million after-tax, a decrease of \$3 million. Segment income decreased primarily due to a lower underlying underwriting gain, largely offset by higher net favorable prior year reserve development. The underlying underwriting gain benefited from higher business volumes.

Combined ratio:

- The combined ratio of 80.9% increased 2.3 points due to a higher underlying combined ratio (3.7 points), partially offset by higher net favorable prior year reserve development (1.3 points) and slightly lower catastrophe losses (0.1 points).
- The underlying combined ratio of 85.0% increased 3.7 points, driven by the impacts of higher loss estimates for management liability coverages, primarily due to the impact of COVID-19 and related economic conditions.
- Net favorable prior year reserve development was primarily driven by better than expected loss experience in the surety product line for multiple accident years.

Net written premiums of \$800 million increased 12%, reflecting continued strong retention and increased levels of renewal premium change in management liability.

## **Full Year 2020 Results**

*(All comparisons vs. full year 2019, unless noted otherwise)*

Segment income for Bond & Specialty Insurance was \$473 million after-tax, a decrease of \$145 million. Segment income decreased primarily due to a lower underlying underwriting gain, an insignificant amount of net unfavorable prior year reserve development in the current year compared to net favorable prior year reserve development in the prior year and lower net investment income. The underlying underwriting gain benefited from higher business volumes.

Combined ratio:

- The combined ratio of 87.4% increased 7.9 points due to a higher underlying combined ratio (5.2 points), the comparison to net favorable prior year reserve development in the prior year (2.5 points) and slightly higher catastrophe losses (0.2 points).
- The underlying combined ratio of 87.0% increased 5.2 points, driven by the impacts of higher loss estimates for management liability coverages, primarily due to the impact of COVID-19 and related economic conditions.
- Net prior year reserve development in the current year was not significant, as higher than expected loss experience in the domestic general liability product line for management liability coverages for recent accident years was offset by better than expected loss experience in the surety product line for multiple accident years.

Net written premiums of \$2.951 billion increased 8%, driven by the same factors described above for the fourth quarter of 2020.



## Personal Insurance Segment Financial Results

(\$ in millions and pre-tax, unless noted otherwise)	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2020	2019	Change	2020	2019	Change
<b>Underwriting gain:</b>	\$ 435	\$ 284	\$ 151	\$ 1,046	\$ 513	\$ 533
<i>Underwriting gain includes:</i>						
Net favorable prior year reserve development.....	24	32	(8)	443	133	310
Catastrophes, net of reinsurance.....	(52)	(36)	(16)	(957)	(411)	(546)
<b>Net investment income.....</b>	<b>117</b>	<b>105</b>	<b>12</b>	<b>381</b>	<b>419</b>	<b>(38)</b>
<b>Other income.....</b>	<b>23</b>	<b>22</b>	<b>1</b>	<b>76</b>	<b>87</b>	<b>(11)</b>
<b>Segment income before income taxes.....</b>	<b>575</b>	<b>411</b>	<b>164</b>	<b>1,503</b>	<b>1,019</b>	<b>484</b>
<b>Income tax expense.....</b>	<b>118</b>	<b>84</b>	<b>34</b>	<b>308</b>	<b>195</b>	<b>113</b>
<b>Segment income.....</b>	<b>\$ 457</b>	<b>\$ 327</b>	<b>\$ 130</b>	<b>\$ 1,195</b>	<b>\$ 824</b>	<b>\$ 371</b>
<b>Combined ratio.....</b>	<b>84.1 %</b>	<b>88.5 %</b>	<b>(4.4) pts</b>	<b>89.7 %</b>	<b>94.2 %</b>	<b>(4.5) pts</b>
<i>Impact on combined ratio</i>						
Net favorable prior year reserve development.....	(0.8) pts	(1.2) pts	0.4 pts	(4.1) pts	(1.3) pts	(2.8) pts
Catastrophes, net of reinsurance.....	1.8 pts	1.3 pts	0.5 pts	8.8 pts	4.0 pts	4.8 pts
<b>Underlying combined ratio.....</b>	<b>83.1 %</b>	<b>88.4 %</b>	<b>(5.3) pts</b>	<b>85.0 %</b>	<b>91.5 %</b>	<b>(6.5) pts</b>
<b>Net written premiums</b>						
Domestic						
Agency (1)						
Automobile.....	\$ 1,277	\$ 1,253	2 %	\$ 5,080	\$ 5,124	(1)%
Homeowners and Other.....	1,294	1,145	13	5,185	4,540	14
Total Agency.....	2,571	2,398	7	10,265	9,664	6
Direct-to-Consumer.....	107	99	8	433	412	5
Total Domestic.....	2,678	2,497	7	10,698	10,076	6
International.....	160	161	(1)	652	707	(8)
<b>Total.....</b>	<b>\$ 2,838</b>	<b>\$ 2,658</b>	<b>7 %</b>	<b>\$11,350</b>	<b>\$10,783</b>	<b>5 %</b>

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

### Fourth Quarter 2020 Results

(All comparisons vs. fourth quarter 2019, unless noted otherwise)

Segment income for Personal Insurance was \$457 million after-tax, an increase of \$130 million. Segment income increased primarily due to a higher underlying underwriting gain and higher net investment income, partially offset by higher catastrophe losses and lower net favorable prior year reserve development. The underlying underwriting gain benefited from higher business volumes.

Combined ratio:

- The combined ratio of 84.1% improved 4.4 points due to a lower underlying combined ratio (5.3 points), partially offset by higher catastrophe losses (0.5 points) and lower net favorable prior year reserve development (0.4 points).
- The underlying combined ratio of 83.1% improved 5.3 points, primarily driven by lower losses in the automobile product line due to a decrease in miles driven attributable to COVID-19 and related economic conditions, partially offset by higher losses in the homeowners and other product line.
- Net favorable prior year reserve development was driven by better than expected loss experience in the segment's domestic operations in the automobile product line for recent accident years.

Net written premiums of \$2.838 billion increased 7%. Agency Automobile net written premiums increased 2%, driven by strong retention and higher levels of new business. Agency Homeowners and Other net written premiums increased 13%, driven by strong retention, renewal premium change of 8% and higher levels of new business.

### **Full Year 2020 Results**

*(All comparisons vs. full year 2019, unless noted otherwise)*

Segment income for Personal Insurance was \$1.195 billion after-tax, an increase of \$371 million. Segment income increased primarily due to a higher underlying underwriting gain and higher net favorable prior year reserve development, partially offset by higher catastrophe losses and lower net investment income. The underlying underwriting gain benefited from higher business volumes.

Combined ratio:

- The combined ratio of 89.7% improved 4.5 points due to a lower underlying combined ratio (6.5 points) and higher net favorable prior year reserve development (2.8 points), partially offset by higher catastrophe losses (4.8 points).
- The underlying combined ratio of 85.0% improved 6.5 points, primarily driven by lower losses in the automobile product line due to a decrease in miles driven attributable to COVID-19 and related economic conditions (net of premium refunds) and lower non-catastrophe weather-related losses in the homeowners and other product line.
- Net favorable prior year reserve development was driven by \$322 million of PG&E subrogation recoveries described above and better than expected loss experience in the segment's domestic operations in the automobile product line for recent accident years.

Net written premiums of \$11.350 billion increased 5%. Agency Automobile net written premiums decreased 1%, driven by premium refunds provided to personal automobile customers, partially offset by strong retention and higher levels of new business. Agency Homeowners and Other net written premiums increased 14%, driven by strong retention, renewal premium change of 8% and higher levels of new business.

### **Financial Supplement and Conference Call**

The information in this press release should be read in conjunction with the financial supplement that is available on our website at [www.travelers.com](http://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 21, 2021. Investors can access the call via webcast at <http://investor.travelers.com> or by dialing 1.844.895.1976 within the United States and 1.647.689.5389 outside the United States. Prior to the webcast, a slide presentation pertaining to the quarterly earnings will be available on the Company's website.

Following the live event, replays will be available via webcast for one year at <http://investor.travelers.com> and by telephone for 30 days by dialing 800.585.8367 within the United States or 416.621.4642 outside the United States. All callers should use conference ID 9075479.

### **About Travelers**

The Travelers Companies, Inc. (NYSE: TRV) is a leading provider of property casualty insurance for auto, home and business. A component of the Dow Jones Industrial Average, Travelers has approximately 30,000 employees and generated revenues of approximately \$32 billion in 2020. For more information, visit [www.travelers.com](http://www.travelers.com).

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 Insurance** - Business Insurance offers a broad array of property and casualty insurance and insurance-related services to its customers, 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** - Bond & Specialty Insurance provides surety, fidelity, management liability, professional liability, and other property and casualty coverages and related risk management services to its customers in the United States and certain specialty insurance products in Canada, the United Kingdom and the Republic of Ireland, as well as Brazil through a joint venture, utilizing various degrees of financially-based underwriting approaches.

**Personal Insurance** - Personal Insurance writes a broad range of property and casualty insurance covering individuals' personal risks, primarily in the United States, as well as in Canada. The primary products of automobile and homeowners insurance are complemented by a broad suite of related coverages.

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## Forward-Looking Statements

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," "views," "estimates" and similar expressions are used to identify these forward-looking statements. These statements include, among other things, the Company's statements about:

- the Company's outlook and its future results of operations and financial condition (including, among other things, anticipated premium volume, premium rates, renewal premium changes, underwriting margins and underlying underwriting margins, net and core income, investment income and performance, loss costs, return on equity, core return on equity and expected current returns, and combined ratios and underlying combined ratios);
- the impact of COVID-19 and related economic conditions, including the potential impact on the Company's investments;
- the impact of legislative or regulatory actions or court decisions taken in response to COVID-19 or otherwise;
- share repurchase plans;
- future pension plan contributions;
- 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 (including changes in interest rates), economic (including inflation, changes in tax law, changes in commodity prices and fluctuations in foreign currency exchange rates) and underwriting market conditions;
- strategic and operational initiatives to improve profitability and competitiveness;
- the Company's competitive advantages;
- new product offerings;
- the impact of new or potential regulations imposed or to be imposed by the United States or other nations, including tariffs or other barriers to international trade; and
- the impact of developments in the tort environment, such as increased attorney involvement in insurance claims and legislation allowing victims of sexual abuse to file or proceed with claims that otherwise would have been time-barred.

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:

- high levels of catastrophe losses, including as a result of factors such as increased concentrations of insured exposures in catastrophe-prone areas, 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;

- 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, including as a result of, among other things, changes in the legal/tort, regulatory and economic environments in which the Company operates or the impacts of COVID-19, the Company's financial results could be materially and adversely affected;
- the impact of COVID-19 and related risks, including on the Company's distribution or other key partners, could materially affect the Company's results of operations, financial position and/or liquidity;
- during or following a period of financial market disruption or an economic downturn, such as the current environment, the Company's business could be materially and adversely affected;
- the Company's investment portfolio is subject to credit and interest rate risk, and may suffer reduced or low returns or material realized or unrealized losses, particularly in the current environment;
- the intense competition that the Company faces, and the impact of innovation, technological change and changing customer preferences on the insurance industry and the markets in which it operates, could harm its ability to maintain or increase its business volumes and its profitability;
- the Company's business could be harmed because of its potential exposure to asbestos and environmental claims and related litigation;
- disruptions to the Company's relationships with its independent agents and brokers or the Company's inability to manage effectively a changing distribution landscape could adversely affect the Company;
- 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, and court decisions or legislative or regulatory changes that take place after the Company issues its policies, including those taken in response to COVID-19 (such as effectively expanding workers' compensation coverage by instituting presumptions of compensability of claims for certain types of workers or requiring insurers to cover business interruption claims irrespective of terms, exclusions or other conditions included in the policies that would otherwise preclude coverage), can result in an unexpected increase in the number of claims and have a material adverse impact on the Company's results of operations;
- the Company may not be able to collect all amounts due to it from reinsurers, reinsurance coverage may not be available to the Company in the future at commercially reasonable rates or at all and the Company is exposed to credit risk related to its structured settlements;
- the Company is exposed to credit risk in certain of its insurance operations and with respect to certain guarantee or indemnification arrangements that it has with third parties, which risk is heightened in the current environment;
- within the United States, the Company's businesses are heavily regulated by the states in which it conducts business, including licensing, market conduct and financial supervision, and changes in regulation or regulatory actions (including those taken in response to COVID-19) may reduce the Company's profitability and limit its growth;
- 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 and/or make future share repurchases;
- the Company's efforts to develop new products, expand in targeted markets or improve business processes and workflows 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, particularly as its business processes become more digital;
- if the Company experiences difficulties with technology, data and network security (including as a result of cyber attacks), outsourcing relationships or cloud-based technology, the Company's ability to conduct its business could be negatively impacted. This risk is heightened in the current environment where a majority of the Company's employees have shifted to a work from home arrangement;
- the Company is also subject to a number of additional risks associated with its business outside the United States, such as foreign currency exchange fluctuations (including with respect to the valuation of the

- Company's foreign investments and interests in joint ventures) and restrictive regulations as well as the risks and uncertainties associated with the United Kingdom's withdrawal from the European Union;
- regulatory changes outside of the United States, including in Canada, the United Kingdom, the Republic of Ireland and 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 in federal regulation could impose significant burdens on the Company, and otherwise adversely impact the Company's results;
  - changes in U.S. tax laws or in the tax laws of other jurisdictions where 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, changes in levels of written premiums, 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, including the ongoing level of uncertainty related to COVID-19.

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 the quarterly report on Form 10-Q filed with the Securities and Exchange Commission (SEC) on October 20, 2020 and in our most recent annual report on Form 10-K filed with the SEC on February 13, 2020, in each case as updated by our periodic filings with the SEC.

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

The following measures are used by the Company's management to evaluate financial performance against historical results, to establish performance targets on a consolidated basis and for other reasons as discussed below. 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 these measures to the most 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.

Some of these measures exclude net realized investment gains (losses), net of tax, and/or net unrealized investment gains (losses), net of tax, included in shareholders' equity, 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 NET INCOME TO CORE INCOME AND CERTAIN OTHER NON-GAAP MEASURES

**Core income (loss)** is consolidated net income (loss) excluding the after-tax impact of net realized investment gains (losses), discontinued operations, the effect of a change in tax laws and tax rates at enactment, and cumulative effect of changes in accounting principles when applicable. **Segment income (loss)** is determined in the same manner as core income (loss) on a segment basis. Management uses segment income (loss) to analyze each segment's performance and as a tool in making business decisions. Financial statement users also consider core income (loss) when analyzing the results and trends of insurance companies. **Core income (loss) per share** is core income (loss) on a per common share basis.

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

(\$ in millions, after-tax)	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2020	2019	2020	2019
<b>Net income</b>	\$ 1,310	\$ 873	\$ 2,697	\$ 2,622
Less: Net realized investment gains	(48)	(6)	(11)	(85)
<b>Core income</b>	\$ 1,262	\$ 867	\$ 2,686	\$ 2,537

  

(\$ in millions, pre-tax)	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2020	2019	2020	2019
<b>Net income</b>	\$ 1,616	\$ 1,074	\$ 3,237	\$ 3,138
Less: Net realized investment gains	(50)	(12)	(2)	(113)
<b>Core income</b>	\$ 1,566	\$ 1,062	\$ 3,235	\$ 3,025

(\$ in millions, after-tax)	Twelve Months Ended December 31,													
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b>Net income</b>	\$2,523	\$2,056	\$3,014	\$3,439	\$3,692	\$3,673	\$2,473	\$1,426	\$3,216	\$3,622	\$2,924	\$4,601	\$4,208	\$1,622
Less: Loss from discontinued operations	—	—	—	—	—	—	—	—	—	—	—	—	—	(439)
<b>Income from continuing operations</b>	2,523	2,056	3,014	3,439	3,692	3,673	2,473	1,426	3,216	3,622	2,924	4,601	4,208	2,061
Adjustments:														
Net realized investment (gains) losses	(93)	(142)	(47)	(2)	(51)	(106)	(32)	(36)	(173)	(22)	271	(101)	(8)	(35)
Impact of TCJA at enactment (1)	—	129	—	—	—	—	—	—	—	—	—	—	—	—
<b>Core income</b>	2,430	2,043	2,967	3,437	3,641	3,567	2,441	1,390	3,043	3,600	3,195	4,500	4,200	2,026
Less: Preferred dividends	—	—	—	—	—	—	—	1	3	3	4	4	5	6
<b>Core income, less preferred dividends</b>	\$2,430	\$2,043	\$2,967	\$3,437	\$3,641	\$3,567	\$2,441	\$1,389	\$3,040	\$3,597	\$3,191	\$4,496	\$4,195	\$2,020

(1) Tax Cuts and Jobs Act of 2017 (TCJA)

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

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2020	2019	2020	2019
<b>Basic income per share</b>				
<b>Net income</b>	\$ 5.13	\$ 3.37	\$ 10.56	\$ 10.01
Adjustments:				
Net realized investment gains, after-tax	(0.19)	(0.02)	(0.04)	(0.32)
<b>Core income</b>	\$ 4.94	\$ 3.35	\$ 10.52	\$ 9.69
<b>Diluted income per share</b>				
<b>Net income</b>	\$ 5.10	\$ 3.35	\$ 10.52	\$ 9.92
Adjustments:				
Net realized investment gains, after-tax	(0.19)	(0.03)	(0.04)	(0.32)
<b>Core income</b>	\$ 4.91	\$ 3.32	\$ 10.48	\$ 9.60

## Reconciliation of Segment Income to Total Core Income

(\$ in millions, after-tax)	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2020	2019	2020	2019
Business Insurance	\$ 713	\$ 448	\$ 1,309	\$ 1,392
Bond & Specialty Insurance	164	167	473	618
Personal Insurance	457	327	1,195	824
Total segment income	1,334	942	2,977	2,834
Interest Expense and Other	(72)	(75)	(291)	(297)
<b>Total core income</b>	<b>\$ 1,262</b>	<b>\$ 867</b>	<b>\$ 2,686</b>	<b>\$ 2,537</b>

## RECONCILIATION OF SHAREHOLDERS' EQUITY TO ADJUSTED SHAREHOLDERS' EQUITY AND CALCULATION OF RETURN ON EQUITY AND CORE RETURN ON EQUITY

**Adjusted shareholders' equity** is shareholders' equity excluding net unrealized investment gains (losses), net of tax, included in shareholders' equity, net realized investment gains (losses), net of tax, for the period presented, the effect of a change in tax laws and tax rates at enactment (excluding the portion related to net unrealized investment gains (losses)), preferred stock and discontinued operations.

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

(\$ in millions)	As of December 31,															
	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b>Shareholders' equity</b>	\$29,201	\$25,943	\$22,894	\$23,731	\$23,221	\$23,598	\$24,836	\$24,796	\$25,405	\$24,477	\$25,475	\$27,415	\$25,319	\$26,616	\$25,135	\$22,303
Adjustments:																
Net unrealized investment (gains) losses, net of tax, included in shareholders' equity	(4,074)	(2,246)	113	(1,112)	(730)	(1,289)	(1,966)	(1,322)	(3,103)	(2,871)	(1,859)	(1,856)	146	(620)	(453)	(327)
Net realized investment (gains) losses, net of tax	(11)	(85)	(93)	(142)	(47)	(2)	(51)	(106)	(32)	(36)	(173)	(22)	271	(101)	(8)	(35)
Impact of TCJA at enactment	—	—	—	287	—	—	—	—	—	—	—	—	—	—	—	—
Preferred stock	—	—	—	—	—	—	—	—	—	—	(68)	(79)	(89)	(112)	(129)	(153)
Loss from discontinued operations	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	439
<b>Adjusted shareholders' equity</b>	<b>\$25,116</b>	<b>\$23,612</b>	<b>\$22,914</b>	<b>\$22,764</b>	<b>\$22,444</b>	<b>\$22,307</b>	<b>\$22,819</b>	<b>\$23,368</b>	<b>\$22,270</b>	<b>\$21,570</b>	<b>\$23,375</b>	<b>\$25,458</b>	<b>\$25,647</b>	<b>\$25,783</b>	<b>\$24,545</b>	<b>\$22,227</b>

**Return on equity** is the ratio of annualized net income (loss) less preferred dividends to average shareholders' equity for the periods presented. **Core return on equity** is the ratio of annualized core income (loss) 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.

**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 average shareholders' equity** is (a) the sum of total adjusted shareholders' equity 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.

## Calculation of Return on Equity and Core Return on Equity

(\$ in millions, after-tax)	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2020	2019	2020	2019
Annualized net income	\$ 5,236	\$ 3,490	\$ 2,697	\$ 2,622
Average shareholders' equity	28,525	25,775	26,892	24,922
<b>Return on equity</b>	<b>18.4 %</b>	<b>13.5 %</b>	<b>10.0 %</b>	<b>10.5 %</b>
Annualized core income	\$ 5,044	\$ 3,468	\$ 2,686	\$ 2,537
Adjusted average shareholders' equity	24,558	23,472	23,790	23,335
<b>Core return on equity</b>	<b>20.5 %</b>	<b>14.8 %</b>	<b>11.3 %</b>	<b>10.9 %</b>

**Average annual core return on equity** over a period is the ratio of: (a) the sum of core 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 Core Return on Equity

(\$ in millions)	Twelve Months Ended December 31,															
	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Core income, less preferred dividends	\$2,686	\$2,537	\$2,430	\$2,043	\$2,967	\$3,437	\$3,641	\$3,567	\$2,441	\$1,389	\$3,040	\$3,597	\$3,191	\$4,496	\$4,195	\$2,020
Adjusted average shareholders' equity	23,790	23,335	22,814	22,743	22,386	22,681	23,447	23,004	22,158	22,806	24,285	25,777	25,668	25,350	23,381	21,118
Core return on equity	11.3%	10.9%	10.7%	9.0%	13.3%	15.2%	15.5%	15.5%	11.0%	6.1%	12.5%	14.0%	12.4%	17.7%	17.9%	9.6%

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

**Underwriting gain (loss)** 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 (unfavorable) 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 designated a catastrophe by internationally recognized organizations that track and report on insured losses resulting from catastrophic events, such as Property Claim Services (PCS) for events in the United States and Canada. Catastrophes can be caused by various natural events, including, among others, hurricanes, tornadoes and other windstorms, earthquakes, hail, wildfires, severe winter weather, floods, tsunamis, volcanic eruptions and other naturally-occurring events, such as solar flares. Catastrophes can also be man-made, such as terrorist attacks and other intentionally destructive acts including those involving nuclear, biological, chemical and radiological events, cyber events, explosions and destruction of infrastructure. Each catastrophe has unique characteristics and catastrophes are not predictable as to timing or amount. Their effects are included in net and core 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.

The Company's threshold for disclosing catastrophes is primarily determined at the reportable segment level. If a threshold for one segment or a combination thereof is exceeded and the other segments have losses from the same event, losses from the event are identified as catastrophe losses in the segment results and for the consolidated results of the Company. Additionally, an aggregate threshold is applied for international business across all



reportable segments. The threshold for 2020 ranges from approximately \$20 million to \$30 million of losses before reinsurance and taxes.

**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 core income (loss), and changes in claims and claim adjustment expense reserve levels from period to period.

## Components of Net Income

(\$ in millions, after-tax except as noted)	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2020	2019	2020	2019
Pre-tax underwriting gain excluding the impact of catastrophes and net prior year loss reserve development	\$ 804	\$ 538	\$ 2,564	\$ 1,779
Pre-tax impact of catastrophes	(29)	(85)	(1,613)	(886)
Pre-tax impact of net favorable (unfavorable) prior year loss reserve development	180	60	351	(60)
Pre-tax underwriting gain	955	513	1,302	833
Income tax expense on underwriting results	214	117	292	179
Underwriting gain	741	396	1,010	654
Net investment income	572	525	1,908	2,097
Other income (expense), including interest expense	(51)	(54)	(232)	(214)
<b>Core income</b>	<b>1,262</b>	<b>867</b>	<b>2,686</b>	<b>2,537</b>
Net realized investment gains	48	6	11	85
<b>Net income</b>	<b>\$ 1,310</b>	<b>\$ 873</b>	<b>\$ 2,697</b>	<b>\$ 2,622</b>

## 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* premiums and the underwriting expense ratio as used in this earnings release is based on net *earned* premiums.

For SAP, the 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 and other, 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, billing and policy fees and other, 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.

**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.

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

### Calculation of the Combined Ratio

(\$ in millions, pre-tax)	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2020	2019	2020	2019
<b>Loss and loss adjustment expense ratio</b>				
Claims and claim adjustment expenses .....	\$ 4,341	\$ 4,640	\$19,123	\$19,133
Less:				
Policyholder dividends .....	10	10	41	47
Allocated fee income .....	41	42	161	174
<b>Loss ratio numerator</b> .....	<b>\$ 4,290</b>	<b>\$ 4,588</b>	<b>\$18,921</b>	<b>\$18,912</b>
<b>Underwriting expense ratio</b>				
Amortization of deferred acquisition costs .....	\$ 1,215	\$ 1,181	\$ 4,773	\$ 4,601
General and administrative expenses (G&A) .....	1,142	1,085	4,509	4,365
Less:				
Non-insurance G&A .....	67	56	234	201
Allocated fee income .....	65	71	268	285
Billing and policy fees and other .....	28	27	97	108
<b>Expense ratio numerator</b> .....	<b>\$ 2,197</b>	<b>\$ 2,112</b>	<b>\$ 8,683</b>	<b>\$ 8,372</b>
<b>Earned premium</b> .....	<b>\$ 7,480</b>	<b>\$ 7,250</b>	<b>\$29,044</b>	<b>\$28,272</b>
<b>Combined ratio (1)</b>				
Loss and loss adjustment expense ratio .....	57.3 %	63.3 %	65.1 %	66.9 %
Underwriting expense ratio .....	29.4 %	29.1 %	29.9 %	29.6 %
<b>Combined ratio</b> .....	<b>86.7 %</b>	<b>92.4 %</b>	<b>95.0 %</b>	<b>96.5 %</b>

(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. In addition, G&A include non-insurance expenses that are excluded from underwriting expenses, and accordingly are excluded in calculating the combined ratio.

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

**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 net unrealized investment gains and losses, net of tax, included in shareholders' equity, 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 Shareholders' Equity to Tangible Shareholders' Equity, Excluding Net Unrealized Investment Gains, Net of Tax

(\$ in millions, except per share amounts)	As of	
	December 31, 2020	December 31, 2019
Shareholders' equity	\$ 29,201	\$ 25,943
Less: Net unrealized investment gains, net of tax, included in shareholders' equity	4,074	2,246
<b>Shareholders' equity, excluding net unrealized investment gains, net of tax, included in shareholders' equity</b>	<b>25,127</b>	<b>23,697</b>
Less:		
Goodwill	3,976	3,961
Other intangible assets	317	330
Impact of deferred tax on other intangible assets	(59)	(51)
<b>Tangible shareholders' equity</b>	<b>\$ 20,893</b>	<b>\$ 19,457</b>
Common shares outstanding	252.4	255.5
Book value per share	\$ 115.68	\$ 101.55
Adjusted book value per share	99.54	92.76
Tangible book value per share	82.77	76.17

## RECONCILIATION OF TOTAL CAPITALIZATION TO TOTAL CAPITALIZATION EXCLUDING NET UNREALIZED INVESTMENT GAINS, NET OF TAX

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

(\$ in millions)	As of	
	December 31, 2020	December 31, 2019
Debt	\$ 6,550	\$ 6,558
Shareholders' equity	29,201	25,943
<b>Total capitalization</b>	<b>35,751</b>	<b>32,501</b>
Less: Net unrealized investment gains, net of tax, included in shareholders' equity	4,074	2,246
<b>Total capitalization excluding net unrealized gain on investments, net of tax, included in shareholders' equity</b>	<b>\$ 31,677</b>	<b>\$ 30,255</b>
Debt-to-capital ratio	18.3 %	20.2 %
Debt-to-capital ratio excluding net unrealized investment gains, net of tax, included in shareholders' equity	20.7 %	21.7 %

## 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.

For Business Insurance and Bond & Specialty Insurance, **retention** is the amount of premium available for renewal that was retained, excluding rate and exposure changes. For Personal Insurance, **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** 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 Business Insurance, retention, renewal premium change and new business exclude National Accounts. For Bond & Specialty

Insurance, retention, renewal premium change and new business exclude surety and other products that are generally sold on a non-recurring, project specific basis.

**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.

**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 on February 13, 2020, and subsequent periodic filings with the SEC.

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