TRAVELERS COMPANIES, INC.
Form 10-K
February 11, 2016

Use these links to rapidly review the document
TABLE OF CONTENTS
ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2015

or

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

For the transition period from to

Commission file number 001-10898

The Travelers Companies, Inc.

(Exact name of registrant as specified in its charter)

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

485 Lexington Avenue,
New York, NY 10017
(Address of principal executive offices) (Zip Code)

(917) 778-6000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, without par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act). Yes ý No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

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

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

As of June 30, 2015, the aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates was $29,961,887,660.

As of February 5, 2016, 294,977,349 shares of the registrant's common stock (without par value) were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement relating to the 2016 Annual Meeting of Shareholders are incorporated by reference into Part III of this report.

Table of Contents

The Travelers Companies, Inc.

Annual Report on Form 10-K

For Fiscal Year Ended December 31, 2015

TABLE OF CONTENTS

Item Number		Page
	Part I	
1.	Business	3
1A.	Risk Factors	49
1B.	Unresolved Staff Comments	73
2.	Properties	73
3.	Legal Proceedings	74
4.	Mine Safety Disclosures	74
	Part II	
5.	Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities	74
6.	Selected Financial Data	77
7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	78
7A.	Quantitative and Qualitative Disclosures About Market Risk	158
8.	Financial Statements and Supplementary Data	161
9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	257
9A.	Controls and Procedures	257
9B.	Other Information	260
	Part III	
10.	Directors, Executive Officers and Corporate Governance	261
11.	Executive Compensation	263
12.	Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters	263
13.	Certain Relationships and Related Transactions, and Director Independence	265
14.	Principal Accountant Fees and Services	265
	Part IV	
15.	Exhibits and Financial Statement Schedules	265
	Signatures	266
	Index to Consolidated Financial Statements and Schedules	268
	Exhibit Index	278

Table of Contents

PART I

Item 1. BUSINESS

The Travelers Companies, Inc. (together with its consolidated subsidiaries, the Company) is a holding company principally engaged, through its subsidiaries, in providing a wide range of commercial and personal property and casualty insurance products and services to businesses, government units, associations and individuals. The Company is incorporated as a general business corporation under the laws of the state of Minnesota and is one of the oldest insurance organizations in the United States, dating back to 1853. The principal executive offices of the Company are located at 485 Lexington Avenue, New York, New York 10017, and its telephone number is (917) 778-6000. The Company also maintains executive offices in Hartford, Connecticut, and St. Paul, Minnesota. The term "TRV" in this document refers to The Travelers Companies, Inc., the parent holding company excluding subsidiaries.

For a summary of the Company's revenues, operating income and total assets by reportable business segments, see note 2 of notes to the consolidated financial statements herein.

PROPERTY AND CASUALTY INSURANCE OPERATIONS

The property and casualty insurance industry is highly competitive in the areas of price, service, product offerings, agent relationships and methods of distribution. Distribution methods include the use of independent agents, exclusive agents, direct marketing and/or salaried employees. According to A.M. Best, there are approximately 1,250 property and casualty groups in the United States, comprising approximately 2,700 property and casualty companies. Of those groups, the top 150 accounted for approximately 92% of the consolidated industry's total net written premiums in 2014. The Company competes with both foreign and domestic insurers. In addition, several property and casualty insurers writing commercial lines of business, including the Company, offer products for alternative forms of risk protection in addition to traditional insurance products. These products include large deductible programs and various forms of self-insurance, some of which utilize captive insurance companies and risk retention groups. The Company's competitive position in the marketplace is based on many factors, including the following:

- premiums charged;
- contract terms and conditions;
- products and services offered;
- claim service;
- agent, broker and client relationships;
- local presence;
- geographic scope of business;
- overall financial strength;
- ratings assigned by independent rating agencies;

- experience and qualifications of employees; and

- technology and information systems.

In addition, the marketplace is affected by available capacity of the insurance industry, as measured by statutory capital and surplus, and the availability of reinsurance from both traditional sources, such as reinsurance companies, and non-traditional sources, such as hedge funds and pension plans. Industry capacity as measured by statutory capital and surplus expands and contracts primarily in conjunction with profit levels generated by the industry, less amounts returned to shareholders through

Table of Contents

dividends and share repurchases. Capital raised by debt and equity offerings may also increase statutory capital and surplus.

Pricing and Underwriting

Pricing of the Company's property and casualty insurance products is generally developed based upon an estimation of expected losses, the expenses associated with producing, issuing and servicing business and managing claims, the time value of money related to the expected loss and expense cash flows, and a reasonable allowance for profit that considers the capital needed to support the Company's business. The Company has a disciplined approach to underwriting and risk management that emphasizes product returns and profitable growth over the long-term rather than premium volume or market share. The Company's insurance subsidiaries are subject to state laws and regulations regarding rate and policy form approvals. The applicable state laws and regulations establish standards in certain lines of business to ensure that rates are not excessive, inadequate, unfairly discriminatory, or used to engage in unfair price competition. The Company's ability to increase rates and the relative timing of the process are dependent upon each respective state's requirements, as well as the competitive market environment.

Geographic Distribution

The following table shows the geographic distribution of the Company's consolidated direct written premiums for the year ended December 31, 2015:

Location	% of Total
Domestic:	
California	9.8%
New York	9.8
Texas	7.3
Pennsylvania	4.7
Illinois	4.0
New Jersey	3.9
Florida	3.9
Georgia	3.1
Massachusetts	3.0
All other domestic(1)	43.7
Total domestic	93.2
International:	
Canada	4.6
All other international(1)	2.2
Total international	6.8
Consolidated total	100.0%

(1) No other single state or country accounted for 3.0% or more of the Company's consolidated direct written premiums written in 2015.

Catastrophe Exposure

The wide geographic distribution of the Company's property and casualty insurance operations exposes it to claims arising out of catastrophes. The Company uses various analyses and methods, including proprietary and third-party computer modeling processes, to continually monitor and analyze

4

underwriting risks of business in natural catastrophe-prone areas and target risk areas for conventional terrorist attacks (defined as attacks other than nuclear, biological, chemical or radiological events). The Company relies, in part, upon these analyses to make underwriting decisions designed to manage its exposure on catastrophe-exposed business. For example, as a result of these analyses, the Company has limited the writing of new property and homeowners business in some markets and has selectively taken underwriting actions on new and existing business. These underwriting actions on new and existing business include tightened underwriting standards, selective price increases and changes to deductibles specific to hurricane-, tornado-, wind- and hail-prone areas. See "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Catastrophe Modeling" and " Changing Climate Conditions." The Company also utilizes reinsurance to manage its aggregate exposures to catastrophes. See " Reinsurance."

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 and in Canada, as well as in the United Kingdom, the Republic of Ireland, Brazil and throughout other parts of the world as a corporate member of Lloyd's. Business and International Insurance is organized as follows:

Domestic

Select Accounts provides small businesses with property and casualty products, including commercial multi-peril, commercial property, general liability, commercial auto and workers' compensation insurance.

Middle Market provides mid-sized businesses with property and casualty products, including commercial multi-peril, commercial property, general liability, commercial auto and workers' compensation insurance, as well as risk management, claims handling and other services. Middle Market generally provides these products to mid-sized businesses through *Commercial Accounts,* as well as to targeted industries through *Construction, Technology, Public Sector Services* and *Oil & Gas*. Middle Market also provides mono-line umbrella and excess coverage insurance through *Excess Casualty* and insurance coverages for foreign organizations with United States exposures through *Global Partner Services*.

National Accounts provides large companies with casualty products and services, including workers' compensation, general liability and automobile liability, generally utilizing loss-sensitive products, on both a bundled and unbundled basis. National Accounts also includes the Company's commercial residual market business, which primarily offers workers' compensation products and services to the involuntary market.

First Party provides traditional and customized property insurance programs to large and mid-sized customers through *National Property,* insurance for goods in transit and movable objects, as well as builders' risk insurance, through *Inland Marine*, insurance for the marine transportation industry and related services, as well as other businesses involved in international trade, through *Ocean Marine,* and comprehensive breakdown coverages for equipment, including property and business interruption coverages, through *Boiler & Machinery*.

Specialized Distribution markets and underwrites its products to customers predominantly through brokers, wholesale agents, program managers and specialized retail agents that manage customers' unique insurance requirements. Specialized Distribution provides insurance coverage for the commercial transportation industry, as well as commercial liability and commercial property policies for small, difficult to place specialty classes of commercial business primarily on an excess and surplus lines basis, through *Northland,* and tailored property and casualty programs on an admitted basis for customers with common risk characteristics or coverage requirements through *National Programs*. Specialized Distribution also serves small to medium-sized agricultural businesses, including farms, ranches, wineries and related operations, through *Agribusiness*.

International

International, through its operations in Canada, the United Kingdom and the Republic of Ireland, offers property and casualty insurance and risk management services to several customer groups, including, among others, those in the technology, public services, and financial and professional services industry sectors. In addition, International markets personal lines and small commercial insurance business in Canada through The Dominion of Canada General Insurance Company (Dominion), which the Company acquired on November 1, 2013. International, through its Lloyd's syndicate (Syndicate 5000), for which the Company provides 100% of the capital, underwrites five principal businesses marine, global property, accident & special risks, power & utilities and aviation.

International also includes results from J. Malucelli Participações em Seguros e Resseguros S.A. (JMalucelli) and J. Malucelli Latam S.A. in Brazil. The Company owns 49.5% of both JMalucelli, a market leader in surety coverages in Brazil, and J. Malucelli Latam S.A., which in September 2015 acquired a majority interest in JMalucelli Travelers Seguros S.A., a Colombian start-up surety provider. These joint venture investments are accounted for using the equity method and are included in "other investments" on the consolidated balance sheet. Also, as a result of a transaction that was completed in October 2015 with Paraná Banco S.A., the Company's joint venture partner in Brazil, the Company acquired 100% of the common stock of Travelers Participações em Seguros Brasil S.A., which comprises JMalucelli's former property and casualty insurance business other than surety. The Company consolidates this investment in its financial statements and includes Paraná Banco S.A.'s preferred stock interest in "other liabilities."

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

Selected Market and Product Information

The following table sets forth the Business and International Insurance segment's net written premiums by market and product line for the periods indicated. For a description of the markets and

Table of Contents

product lines referred to in the table, see " Principal Markets and Methods of Distribution" and " Product Lines," respectively.

(for the year ended December 31, in millions)	2015	2014	2013	% of Total 2015
By market:				
Domestic:				
Select Accounts	**$ 2,716**	$ 2,707	$ 2,724	**18.6%**
Middle Market	**6,325**	6,108	5,862	**43.4**
National Accounts	**1,048**	1,047	1,010	**7.2**
First Party	**1,564**	1,579	1,552	**10.7**
Specialized Distribution	**1,111**	1,074	1,085	**7.6**
Total Domestic	**12,764**	12,515	12,233	**87.5**
International	**1,819**	2,121	1,279	**12.5**
Total Business and International Insurance by market	**$ 14,583**	$ 14,636	$ 13,512	**100.0%**
By product line:				
Domestic:				
Workers' compensation	**$ 3,915**	$ 3,794	$ 3,642	**26.8%**
Commercial automobile	**1,960**	1,892	1,897	**13.4**
Commercial property	**1,766**	1,793	1,748	**12.1**
General liability	**1,939**	1,891	1,823	**13.3**
Commercial multi-peril	**3,146**	3,103	3,083	**21.6**
Other	**38**	42	40	**0.3**
Total Domestic	**12,764**	12,515	12,233	**87.5**
International	**1,819**	2,121	1,279	**12.5**
Total Business and International Insurance by product line	**$ 14,583**	$ 14,636	$ 13,512	**100.0%**

Principal Markets and Methods of Distribution

The Business and International Insurance segment distributes its products through approximately 11,300 independent agencies and brokers. Agencies and brokers are serviced by 127 field offices and three customer service centers.

Business and International Insurance continues to make significant investments in enhanced technology utilizing internet-based applications to provide real-time interface capabilities with independent agencies and brokers. Business and International Insurance builds relationships with well-established, independent insurance agencies and brokers. In selecting new independent agencies and brokers to distribute its products, Business and International Insurance considers, among other attributes, each agency's or broker's financial strength, staff experience and strategic fit with the Company's operating and marketing plans. Once an agency or broker is appointed, Business and International Insurance carefully monitors its performance. The majority of products offered in the United States are distributed through a common base of independent agents and brokers, many of whom also sell the Company's Personal Insurance products. Additionally, several operations may underwrite business with agents that specialize in servicing the needs of certain of the industries served by these operations.

Select Accounts is a leading provider of commercial property and casualty insurance products to small businesses in the U.S., generally with fewer than 50 employees, and sells these products through a large network of independent agents and brokers. Products offered by Select Accounts are guaranteed-cost policies, including packaged products covering property and liability exposures. Each small business risk is independently evaluated via an automated underwriting platform which in turn enables agents to quote, bind and issue a substantial amount of new small business risks at their desktop in an efficient manner that significantly reduces the time period between quoting a price on a new policy and issuing that policy. Risks with more complex characteristics are underwritten with the assistance of Company personnel. Select Accounts has established a strong marketing relationship with its distribution network and has provided this network with defined underwriting policies, a broad array of products and competitive prices. In addition, the Company has established centralized service centers to help agents perform many service functions, in return for a fee.

Middle Market sells a broad range of commercial property and casualty insurance products and services through a large network of independent agents and brokers, primarily targeting mid-sized businesses in the U.S. with 50 to 1,000 employees. The Company offers a full line of products to its Middle Market customers with an emphasis on guaranteed cost programs. Each account is underwritten based on the unique risk characteristics, loss history and coverage needs of the account. The ability to underwrite at this detailed level allows Middle Market to have a broad risk appetite and a diversified customer base. Within Middle Market, products and services are tailored to certain targeted industry segments of significant size and complexity that require unique underwriting, claim, risk management or other insurance-related products and services.

National Accounts sells a variety of casualty products and services to large companies in the U.S. through a network of national and regional brokers, primarily utilizing loss-sensitive products in connection with a large deductible or self-insured program and, to a lesser extent, a retrospectively rated or a guaranteed cost insurance policy. National Accounts also provides casualty products and services through retail brokers on an unbundled basis, using third-party administrators for insureds who utilize programs such as collateralized deductibles, captive reinsurers and self-insurance. National Accounts provides insurance-related services, such as risk management services, claims administration, loss control and risk management information services, either in addition to, or in lieu of, pure risk coverage, and generated $253 million of fee income in 2015, excluding commercial residual market business. The commercial residual market business of National Accounts sells claims and policy management services to workers' compensation pools throughout the United States, and generated $138 million of fee income in 2015. National Accounts services approximately 36% of the total workers' compensation assigned risk market, making the Company one of the largest servicing carriers in the industry. Workers' compensation accounted for approximately 73% of sales to National Accounts customers during 2015, based on direct written premiums and fees.

First Party markets commercial property and casualty insurance products and services through a large network of agents and brokers to a wide customer base in the U.S. having specialized property and casualty coverage requirements. First Party provides traditional and customized property insurance programs to large and mid-sized customers; insurance for goods in transit and movable objects; builders' risk insurance; and insurance for the marine transportation industry, providers of related services and other businesses involved in international trade. In addition, First Party provides comprehensive breakdown coverages for equipment, including property and business interruption coverages.

Specialized Distribution distributes admitted as well as excess and surplus lines property and casualty products predominantly through selected brokers, wholesale agents, program managers and specialized retail agents, including on a brokerage and delegated authority underwriting basis. These brokers, wholesale agents, program managers and specialized retail agents operate in certain markets in the U.S. that are not typically served by the Company's appointed retail

Table of Contents

agents, or they maintain certain affinity arrangements in specialized market segments. The wholesale excess and surplus lines market, which is characterized by the absence of rate and form regulation, allows for more flexibility to write certain classes of business. In working with agents or program managers on a brokerage basis, Specialized Distribution underwrites the business and sets the premium level. In working with agents or program managers with delegated underwriting authority, the agents produce and underwrite business subject to underwriting guidelines that have been specifically designed for each facility or program.

International distributes its products principally through brokers in each of the countries in which it operates. International also writes business at Lloyd's, where its products are distributed through Lloyd's wholesale and retail brokers. By virtue of Lloyd's worldwide licenses, the Business and International Insurance segment has access to international markets across the world.

Pricing and Underwriting

Business and International Insurance utilizes underwriting, claims, engineering, actuarial and product development disciplines for particular industries, in conjunction with extensive amounts of proprietary data gathered and analyzed over many years, to facilitate its risk selection process and develop pricing parameters. The Company utilizes both standard industry forms and proprietary forms for the insurance policies it issues.

A portion of business in this segment, particularly in National Accounts and Construction, is written with large deductible insurance policies. Under workers' compensation insurance contracts with deductible features, the Company is obligated to pay the claimant the full amount of the claim. The Company is subsequently reimbursed by the contractholder for the deductible amount and is subject to credit risk until such reimbursement is made. At December 31, 2015, contractholder payables on unpaid losses within the deductible layer of large deductible policies and the associated receivables were each approximately $4.37 billion. Business and International Insurance also utilizes retrospectively rated policies for another portion of the business, primarily for workers' compensation coverage. Although the retrospectively rated feature of the policy substantially reduces insurance risk for the Company, it introduces additional credit risk to the Company. Premium receivables from holders of retrospectively rated policies totaled approximately $88 million at December 31, 2015. Significant collateral, primarily letters of credit and, to a lesser extent, cash collateral, trusts or surety bonds, is generally obtained for large deductible plans and/or retrospectively rated policies that provide for deferred collection of deductible recoveries and/or ultimate premiums. The amount of collateral requested is predicated upon the creditworthiness of the customer and the nature of the insured risks. Business and International Insurance continually monitors the credit exposure on individual accounts and the adequacy of collateral. For additional information concerning credit risk in certain of the Company's businesses, see "Item 1A Risk Factors We are exposed to credit risk in certain of our business and investment operations including reinsurance or structured settlements."

Product Lines

The Business and International Insurance segment writes the following types of coverages:

Domestic

Workers' Compensation. Provides coverage for employers for specified benefits payable under state or federal law for workplace injuries to employees. There are typically four types of benefits payable under workers' compensation policies: medical benefits, disability benefits, death benefits and vocational rehabilitation benefits. The Company emphasizes managed care cost containment strategies, which involve employers, employees and care providers in a cooperative

Table of Contents

effort that focuses on the injured employee's early return to work and cost-effective quality care. The Company offers the following types of workers' compensation products:

- guaranteed-cost insurance products, in which policy premium charges are fixed for the period of coverage and do not vary as a result of the insured's loss experience;
- loss-sensitive insurance products, including large deductible and retrospectively rated policies, in which fees or premiums are adjusted based on actual loss experience of the insured during the policy period; and
- service programs, which are generally sold to the Company's National Accounts customers, where the Company receives fees rather than premiums for providing loss prevention, risk management, and claim and benefit administration services to organizations under service agreements.

The Company also participates in state assigned risk pools as a servicing carrier and pool participant.

Commercial Automobile. Provides coverage for businesses against losses incurred from personal bodily injury, bodily injury to third parties, property damage to an insured's vehicle and property damage to other vehicles and other property resulting from the ownership, maintenance or use of automobiles and trucks in a business.

Commercial Property. Provides coverage for loss of or damage to buildings, inventory and equipment from a variety of events, including, among others, hurricanes and other windstorms, tornadoes, earthquakes, hail, wildfires, severe winter weather, floods, volcanic eruptions, tsunamis, theft, vandalism, fires, explosions, terrorism and financial loss due to business interruption resulting from covered property damage. For additional information on terrorism coverages, see "Reinsurance Catastrophe Reinsurance Terrorism Risk Insurance Program." Commercial property also includes specialized equipment insurance, which provides coverage for loss or damage resulting from the mechanical breakdown of boilers and machinery, and ocean and inland marine insurance, which provides coverage for goods in transit and unique, one-of-a-kind exposures.

General Liability. Provides coverages for businesses against third-party claims arising from accidents occurring on their premises or arising out of their operations, including as a result of injuries sustained from products sold. Specialized liability policies may also include coverage for directors' and officers' liability arising in their official capacities, employment practices liability insurance, fiduciary liability for trustees and sponsors of pension, health and welfare, and other employee benefit plans, errors and omissions insurance for employees, agents, professionals and others arising from acts or failures to act under specified circumstances, as well as umbrella and excess insurance.

Commercial Multi-Peril. Provides a combination of the property and liability coverages described in the foregoing product line descriptions.

International

Provides coverage for auto and motor (similar to automobile coverage in the United States), personal property, employers' liability (similar to workers' compensation coverage in the United States), public and product liability (the equivalent of general liability), professional indemnity (similar to professional liability coverage), commercial property, surety, marine, aviation, personal accident and kidnap & ransom. Marine provides coverage for ship hulls, cargoes carried, private yachts, marine-related liability, offshore energy, ports and terminals, fine art and terrorism. Aviation provides coverage for worldwide aviation risks including physical damage and

Table of Contents

liabilities for airline, aerospace, general aviation, aviation war and space risks. Personal accident provides financial protection in the event of death or disablement due to accidental bodily injury, while kidnap & ransom provides financial protection against kidnap, hijack, illegal detention and extortion. While the covered hazards may be similar to those in the U.S. market, the different legal environments can make the product risks and coverage terms potentially very different from those the Company faces in the United States.

Net Retention Policy Per Risk

The following discussion reflects the Company's retention policy with respect to the Business and International Insurance segment as of January 1, 2016. For third-party liability, Business and International Insurance generally limits its net retention, through the use of reinsurance, to a maximum of $16.0 million per insured, per occurrence. For property exposures, Business and International Insurance generally limits its retained amount per risk to $20.0 million per occurrence, net of reinsurance. Business and International Insurance generally retains its workers' compensation exposures. Reinsurance treaties often have aggregate limits or caps which may result in larger net per-risk retentions if the aggregate limits or caps are reached. Business and International Insurance utilizes facultative reinsurance to provide additional limits capacity or to reduce retentions on an individual risk basis. Business and International Insurance may also retain amounts greater than those described herein based upon the individual characteristics of the risk.

Geographic Distribution

The following table shows the geographic distribution of Business and International Insurance's direct written premiums for the year ended December 31, 2015:

Location	**% of Total**
Domestic:	
California	11.7%
New York	8.0
Texas	6.4
Illinois	4.6
Pennsylvania	3.7
New Jersey	3.6
Florida	3.2
Massachusetts	3.2
All other domestic(1)	44.7
Total domestic	89.1
International:	
Canada	7.4
All other international(1)	3.5
Total international	10.9
Total Business and International Insurance	100.0%

(1) No other single state or country accounted for 3.0% or more of the Business and International Insurance segment's direct written premiums in 2015.

Table of Contents

Competition

The insurance industry is represented in the commercial marketplace by many insurance companies of varying size as well as other entities offering risk alternatives, such as self-insured retentions or captive programs. Market competition works within the insurance regulatory framework to set the price charged for insurance products and the levels of coverage and service provided. A company's success in the competitive commercial insurance landscape is largely measured by its ability to profitably provide insurance and services, including claims handling and risk control, at prices and terms that retain existing customers and attract new customers.

Domestic

Competitors typically write Select Accounts business through independent agents and, to a lesser extent, regional brokers, and as direct writers. Both national and regional property and casualty insurance companies compete in the Select Accounts market which generally comprises lower-hazard, "Main Street" business customers. Risks are underwritten and priced using standard industry practices and a combination of proprietary and standard industry product offerings. Competition in this market is primarily based on product offerings, service levels, ease of doing business and price.

Competitors typically write Middle Market business through independent agents and brokers. Several of Middle Market's operations require unique combinations of industry knowledge, customized coverage, specialized risk control and loss handling services, along with partnerships with agents and brokers that also focus on these markets. Competitors in this market are primarily national property and casualty insurance companies that write most classes of business using traditional products and pricing, and regional insurance companies. Companies compete based on product offerings, service levels, price and claim and loss prevention services. Efficiency through automation and rapid response time to agent, broker and customer needs is one key to success in this market.

In the National Accounts market, competition is based on price, product offerings, claim and loss prevention services, managed care cost containment, risk management information systems and collateral requirements. National Accounts primarily competes with national property and casualty insurance companies, as well as with other underwriters of property and casualty insurance in the alternative risk transfer market, such as self-insurance plans, captives managed by others, and a variety of other risk-financing vehicles and mechanisms. The residual market division competes for state contracts to provide claims and policy management services.

First Party and Specialized Distribution compete in focused target markets. Each of these markets is different and requires unique combinations of industry knowledge, customized coverage, specialized risk control and loss handling services, along with partnerships with agents and brokers that also focus on these markets. Some of these businesses compete with national carriers with similarly dedicated underwriting and marketing groups, whereas others compete with smaller regional companies. Each of these businesses has regional structures that allow them to deliver personalized service and local knowledge to their customer base. Specialized agents and brokers, including wholesale agents and program managers, supplement this strategy. In all of these businesses, the competitive strategy typically is the application of focused industry knowledge to insurance and risk needs.

International

International competes with numerous international and domestic insurers in Canada, the United Kingdom, the Republic of Ireland and Brazil. Companies compete on the basis of price, product offerings and the level of claim and risk management services provided. The Company has developed expertise in various markets in these countries similar to those served in the United States and provides both property and casualty coverage for these markets.

Table of Contents

At Lloyd's, International competes with other syndicates operating in the Lloyd's market as well as international and domestic insurers in the various markets where the Lloyd's operation writes business worldwide. Competition is again based on price, product and service. The Company focuses on lines it believes it can underwrite effectively and profitably with an emphasis on short-tail insurance lines.

BOND & SPECIALTY INSURANCE

The Bond & Specialty Insurance segment provides surety, fidelity, management liability, professional liability, and other property and casualty coverages and related risk management services to a wide range of primarily domestic customers, utilizing various degrees of financially-based underwriting approaches. The range of coverages includes performance, payment and commercial surety and fidelity bonds for construction and general commercial enterprises; management liability coverages including directors and officers liability, employee dishonesty, employment practices liability, fiduciary liability and cyber risk for public corporations, private companies and not-for-profit organizations; professional liability coverage for a variety of professionals including, among others, lawyers and design professionals; and management liability, professional liability, property, workers' compensation, auto and general liability for financial institutions.

Selected Market and Product Information

The following table sets forth Bond & Specialty Insurance net written premiums by product line for the periods indicated. For a description of the product lines referred to in the table, see "Principal Markets and Methods of Distribution" and "Product Lines," respectively.

(for the year ended December 31, in millions)	2015	2014	2013	% of Total 2015
Fidelity and surety	**$ 952**	$ 963	$ 918	**45.7%**
General liability	**952**	961	934	**45.7**
Other	**177**	179	178	**8.6**
Total Bond & Specialty Insurance	**$ 2,081**	$ 2,103	$ 2,030	**100.0%**

Principal Markets and Methods of Distribution

Bond & Specialty Insurance distributes the vast majority of its products in the United States through approximately 5,900 of the same independent agencies and brokers that distribute the Business and International Insurance segment's products in the U.S. The Bond & Specialty Insurance segment, in conjunction with the Business and International Insurance segment, continues to make investments in enhanced technology utilizing internet-based applications to provide real-time interface capabilities with its independent agencies and brokers. Bond & Specialty Insurance builds relationships with well-established, independent insurance agencies and brokers. In selecting new independent agencies and brokers to distribute its products, Bond & Specialty Insurance considers, among other attributes, each agency's or broker's profitability, financial stability, staff experience and strategic fit with its operating and marketing plans. Once an agency or broker is appointed, its ongoing performance is closely monitored.

Pricing and Underwriting

Bond & Specialty Insurance utilizes underwriting, claims, engineering, actuarial and product development disciplines for specific accounts and industries, in conjunction with extensive amounts of proprietary data gathered and analyzed over many years, to facilitate its risk selection process and develop pricing parameters. The Company utilizes both standard industry forms and proprietary forms for the insurance policies it issues.

Table of Contents

Product Lines

The Bond & Specialty Insurance segment writes the following types of coverages:

Fidelity and Surety. Provides fidelity insurance coverage, which protects an insured for loss due to embezzlement or misappropriation of funds by an employee, and surety, which is a three-party agreement whereby the insurer agrees to pay a third party or make complete an obligation in response to the default, acts or omissions of an insured. Surety is generally provided for construction performance, legal matters such as appeals, trustees in bankruptcy and probate and other performance bonds.

General Liability. Provides coverage for specialized liability exposures as described above in more detail in the "Business and International Insurance" section of this report, as well as cyber risk coverages.

Other. Coverages include Property, Workers' Compensation, Commercial Automobile and Commercial Multi-Peril, which are described above in more detail in the "Business and International Insurance" section of this report.

Net Retention Policy Per Risk

The following discussion reflects the Company's retention policy with respect to the Bond & Specialty Insurance segment as of January 1, 2016. For third party liability, including but not limited to umbrella liability, professional liability, directors' and officers' liability, employment practices liability and cyber risk liability, Bond & Specialty Insurance generally limits net retentions to $25.0 million per policy. For surety protection, where insured limits are often significant, Bond & Specialty Insurance generally retains up to $115.0 million probable maximum loss (PML) per principal, after reinsurance, but may retain higher amounts based on the type of obligation, credit quality and other credit risk factors. Reinsurance treaties often have aggregate limits or caps which may result in larger net per risk retentions if the aggregate limits or caps are reached. Bond & Specialty Insurance utilizes facultative reinsurance to provide additional limits capacity or to reduce retentions on an individual risk basis. Bond & Specialty Insurance may also retain amounts greater than those described herein based upon the individual characteristics of the risk.

Geographic Distribution

The following table shows the geographic distribution of Bond & Specialty Insurance's direct written premiums for the year ended December 31, 2015:

State	% of Total
California	9.2%
Texas	7.5
New York	7.2
Florida	5.6
Illinois	4.7
Pennsylvania	4.3
Massachusetts	3.3
Ohio	3.2
All other(1)	55.0
Total	100.0%

(1) No other single state accounted for 3.0% or more of the Bond & Specialty Insurance segment's direct written premiums in 2015.

Table of Contents

Competition

The competitive landscape in which the Bond & Specialty Insurance segment operates is affected by many of the same factors described previously for the Business and International Insurance segment. Competitors in this market are primarily national property and casualty insurance companies that write most classes of business and, to a lesser extent, regional insurance companies and companies that have developed niche programs for specific industry segments.

Bond & Specialty Insurance underwrites and markets its products to all sizes of businesses and other organizations, as well as individuals. The Company believes that its reputation for timely and consistent decision making, a nationwide network of local underwriting, claims and industry experts and strong producer and customer relationships, as well as its ability to offer its customers a full range of products, provides Bond & Specialty Insurance an advantage over many of its competitors and enables it to compete effectively in a complex, dynamic marketplace. The Company believes that the ability of the Bond & Specialty Insurance segment to cross-sell its products to customers of the Business and International Insurance and Personal Insurance segments provides additional competitive advantages for the Company.

PERSONAL INSURANCE

The Company's 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.

Selected Product and Distribution Channel Information

The following table sets forth net written premiums for the Personal Insurance segment's business by product line for the periods indicated. For a description of the product lines referred to in the following table, see " Product Lines." In addition, see " Principal Markets and Methods of Distribution" for a discussion of distribution channels for Personal Insurance's product lines.

(for the year ended December 31, in millions)	2015	2014	2013	% of Total 2015
By product line:				
Automobile	**$ 3,700**	$ 3,390	$ 3,370	**49.6%**
Homeowners and Other	**3,757**	3,775	3,855	**50.4**
Total Personal Insurance	**$ 7,457**	$ 7,165	$ 7,225	**100.0%**

Principal Markets and Methods of Distribution

Personal Insurance products are distributed primarily through approximately 11,100 active independent agencies located throughout the United States, supported by personnel in nine sales regions. In addition, sales and service are provided to customers through five contact centers. While the principal markets for Personal Insurance products continue to be in states along the East Coast, California and Texas, the business continues to expand its geographic presence across the United States. See "Competition" below for a discussion of the Company's newest private passenger automobile product, Quantum Auto 2.0.

In selecting new independent agencies to distribute its products, Personal Insurance considers, among other attributes, each agency's profitability, financial stability, staff experience and strategic fit with the segment's operating and marketing plans. Once an agency is appointed, Personal Insurance carefully monitors its performance.

Table of Contents

Agents can access the Company's agency service portal for a number of resources including customer service, marketing and claims management. In addition, agencies can choose to shift the ongoing service responsibility for Personal Insurance's customers to one of the Company's Customer Care Centers, where the Company provides, on behalf of an agency, a comprehensive array of customer service needs, including response to billing and coverage inquiries, and policy changes. Approximately 1,400 agents take advantage of this service alternative, for which they generally pay a fee.

Personal Insurance also distributes its products through additional channels, including corporations that make the company's product offerings available to their employees primarily through payroll deduction, consumer associations and affinity groups. Personal Insurance handles the sales and service for these programs either through a sponsoring independent agent or through the Company's contact center locations. In addition, since 1995, the Company has had a marketing agreement with GEICO to underwrite homeowners business for certain of their auto customers.

In 2009, the Company began marketing its insurance products directly to consumers, largely through online channels. The investment in the direct-to-consumer initiative has generated growing but still modest premium volume for Personal Insurance in recent years, reflective of the Company's targeted customer base. The direct-to-consumer initiative, while intended to enhance the Company's long-term ability to compete successfully in a consumer-driven marketplace, is expected to remain modest with respect to premium volume and remain unprofitable for a number of years.

Pricing and Underwriting

Personal Insurance has developed a product management methodology that integrates the disciplines of underwriting, claim, actuarial and product development. This approach is designed to maintain high quality underwriting discipline and pricing segmentation. Proprietary data accumulated over many years is analyzed and Personal Insurance uses a variety of risk differentiation models to facilitate its pricing segmentation. The Company's product management area establishes underwriting guidelines integrated with its filed pricing and rating plans, which enable Personal Insurance to effectively execute its risk selection and pricing processes.

Pricing for personal automobile insurance is driven in large part by changes in the frequency of claims and by inflation in the cost of automobile repairs, medical care and litigation of liability claims. Pricing in the homeowners business is driven in large part by changes in the frequency of claims and by inflation in the cost of building supplies, labor and household possessions. In addition to the normal risks associated with any multiple peril coverage, the profitability and pricing of both homeowners and automobile insurance are affected by the incidence of natural disasters, particularly those related to weather and, for homeowners insurance, earthquakes. Insurers writing personal lines property and casualty policies may be unable to increase prices until some time after the costs associated with coverage have increased, primarily because of state insurance rate regulation. The pace at which an insurer can change rates in response to increased costs depends, in part, on whether the applicable state law requires prior approval of rate increases or notification to the regulator either before or after a rate change is imposed. In states with prior approval laws, rates must be approved by the regulator before being used by the insurer. In states having "file-and-use" laws, the insurer must file rate changes with the regulator, but does not need to wait for approval before using the new rates. A "use-and-file" law requires an insurer to file rates within a period of time after the insurer begins using the new rate. Approximately one-half of the states require prior approval of most rate changes. In addition, changes to methods of marketing and underwriting in some jurisdictions are subject to state-imposed restrictions, which can make it more difficult for an insurer to significantly manage catastrophe exposures.

Table of Contents

The Company's ability or willingness to raise prices, modify underwriting terms or reduce exposure to certain geographies may be limited due to considerations of public policy, the competitive environment, the evolving political environment and/or changes in the general economic climate. The Company also may choose to write business it might not otherwise write in some states for strategic purposes, such as improving access to other commercial or personal underwriting opportunities. In choosing to write business in some states, the Company also considers the costs and benefits of those states' residual markets and guaranty funds, as well as other property and casualty business the Company writes in those states.

Product Lines

The primary coverages in Personal Insurance are personal automobile and homeowners and other insurance sold to individuals. Personal Insurance had approximately 6.4 million active policies (e.g., policies-in-force) at December 31, 2015.

The Personal Insurance segment writes the following types of coverages:

Personal Automobile provides coverage for liability to others for both bodily injury and property damage, uninsured motorist protection, and for physical damage to an insured's own vehicle from collision, fire, flood, hail and theft. In addition, many states require policies to provide first-party personal injury protection, frequently referred to as no-fault coverage.

Homeowners and Other provides protection against losses to residences and contents from a variety of perils (excluding flooding) as well as coverage for personal liability. The Company writes homeowners insurance for dwellings, condominiums and tenants, and rental properties. The Company also writes coverage for boats and yachts and valuable personal items such as jewelry, and also writes coverages for umbrella liability, identity fraud, and weddings and special events.

Net Retention Policy Per Risk

The following discussion reflects the Company's retention policy with respect to the Personal Insurance segment as of January 1, 2016. Personal Insurance generally retains its primary personal auto exposures in their entirety. For personal property insurance, there is an $8.0 million maximum retention per risk, net of reinsurance. Personal Insurance uses facultative reinsurance to provide additional limits capacity or to reduce retentions on an individual risk basis. Personal Insurance issues umbrella policies up to a maximum limit of $10.0 million per risk. Personal Insurance may also retain amounts greater than those described herein based upon the individual characteristics of the risk.

Table of Contents

Geographic Distribution

The following table shows the geographic distribution of Personal Insurance's direct written premiums for the year ended December 31, 2015:

State	% of Total
New York	14.2%
Texas(1)	9.2
Pennsylvania	7.0
California	6.0
New Jersey	5.0
Georgia	4.9
Florida	4.8
Connecticut	4.4
Virginia	4.2
Maryland	3.2
South Carolina	3.0
All others(2)	34.1
Total	100.0%

(1) The percentage for Texas includes business written by the Company through a fronting agreement with another insurer.

(2) No other single state accounted for 3.0% or more of the Personal Insurance segment's direct written premiums in 2015.

Competition

Although national companies write the majority of this business, Personal Insurance also faces competition from many regional and hundreds of local companies. Personal Insurance primarily competes based on breadth of product offerings, price, service (including claims handling), ease of doing business, stability of the insurer and name recognition. Personal Insurance competes for business within each independent agency since these agencies also offer policies of competing companies. At the agency level, competition is primarily based on price, service (including claims handling), the level of automation and the development of long-term relationships with individual agents. In recent years, most independent personal insurance agents have begun utilizing price comparison rating technology, sometimes referred to as "comparative raters," as a cost-efficient means of obtaining quotes from multiple companies. Because the use of this technology facilitates the process of generating multiple quotes, the technology has increased price comparison on new business and, increasingly, on renewal business. Personal Insurance also competes with insurance companies that use exclusive agents or salaried employees to sell their products, as well as those that employ direct marketing strategies. See "Item 1A Risk Factors The intense competition that we face could harm our ability to maintain or increase our business volumes and our profitability" herein.

The Agency Automobile line of business has been negatively impacted by various factors, including the use of price comparison technology by agents and brokers as discussed above. The Company's actions in response to these factors have included, among other things, the reduction of claim adjustment and other insurance expenses, with the majority of the impact in the Agency Automobile line of business. Additionally, in the fourth quarter of 2013, the Company launched its newest private passenger automobile product, Quantum Auto 2.0, which has a lower base commission rate than the Company's prior Quantum Auto 1.0 product. These changes in cost structure enabled the Company to

Table of Contents

price Quantum Auto 2.0 more competitively while maintaining expected returns at appropriate levels over time. By December 31, 2015, the Company was offering Quantum Auto 2.0 in all of the states in which it had intended to introduce the product. All new accounts in these states are being written using Quantum Auto 2.0, and the product is available to agents at their discretion for existing accounts.

CLAIMS MANAGEMENT

The Company's claim functions are managed through its Claims Services organization, with locations in the United States and in the other countries where it does business. With more than 11,000 employees, Claims Services employs a group of professionals with diverse skills, including claim adjusters, appraisers, attorneys, investigators, engineers, accountants, system specialists and training, management and support personnel. Approved external service providers, such as investigators, attorneys and, in the rare circumstances when necessary, independent adjusters and appraisers, are available for use as appropriate.

U.S. field claim management teams located in 21 claim centers and 53 satellite and specialty-only offices in 45 states are organized to maintain focus on the specific claim characteristics unique to the businesses within the Company's business segments. Claim teams with specialized skills, required licenses, resources and workflows are matched to the unique exposures of those businesses, with local claims management dedicated to achieving optimal results within each segment. The Company's home office operations provide additional support in the form of workflow design, quality management, information technology, advanced management information and data analysis, training, financial reporting and control, and human resources strategy. This structure permits the Company to maintain the economies of scale of a large, established company while retaining the agility to respond promptly to the needs of customers, brokers, agents and underwriters. Claims management for International, while generally provided locally by staff in the respective international locations due to local knowledge of applicable laws and regulations, is also managed by the Company's Claims Services organization in the U.S. to leverage that knowledge base and to share best practices.

An integral part of the Company's strategy to benefit customers and shareholders is its continuing industry leadership in the fight against insurance fraud through its Investigative Services unit. The Company has a nationwide staff of experts who investigate a wide array of insurance fraud schemes using in-house forensic resources and other technological tools. This staff also has specialized expertise in fire scene examinations, medical provider fraud schemes and data mining. The Company also dedicates investigative resources to ensure that violations of law are reported to and prosecuted by law enforcement agencies.

Claims Services uses technology, management information and data analysis to assist the Company in reviewing its claim practices and results in order to evaluate and improve its claims management performance. The Company's claims management strategy is focused on segmentation of claims and appropriate technical specialization to drive effective claim resolution. The Company continually monitors its investment in claim resources to maintain an effective focus on claim outcomes and a disciplined approach to continual improvement. The Company operates a state-of-the-art claims training facility which offers hands-on experiential learning to help ensure that its claim professionals are properly trained. In recent years, the Company has invested significant additional resources in many of its claim handling operations and routinely monitors the effect of those investments to ensure a consistent optimization among outcomes, cost and service.

Claims Services' catastrophe response strategy is to respond to a significant catastrophic event using its own personnel, enabling it to minimize reliance on independent adjusters and appraisers. The Company has developed a large dedicated catastrophe response team and trained a large Enterprise Response Team of existing employees who can be deployed on short notice in the event of a catastrophe that generates claim volume exceeding the capacity of the dedicated catastrophe response team. In recent years, these internal resources were successfully deployed to respond to a record number of catastrophe claims.

Table of Contents

REINSURANCE

The Company reinsures a portion of the risks it underwrites in order to manage its exposure to losses and to protect its capital. The Company cedes to reinsurers a portion of these risks and pays premiums based upon the risk and exposure of the policies subject to such reinsurance. The Company utilizes a variety of reinsurance agreements to manage its exposure to large property and casualty losses, including catastrophe, treaty, facultative and quota share reinsurance. Ceded reinsurance involves credit risk, except with regard to mandatory pools and associations, and is predominantly subject to aggregate loss limits. Although the reinsurer is liable to the Company to the extent of the reinsurance ceded, the Company remains liable as the direct insurer on all risks reinsured. Reinsurance recoverables are reported after reductions for known insolvencies and after allowances for uncollectible amounts. The Company also holds collateral, including trust agreements, escrow funds and letters of credit, under certain reinsurance agreements. The Company monitors the financial condition of reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically. Reinsurers are selected based on their financial condition, business practices, the price of their product offerings and the value of collateral provided. After reinsurance is purchased, the Company has limited ability to manage the credit risk to a reinsurer. In addition, in a number of jurisdictions, particularly the European Union and the United Kingdom, a reinsurer is permitted to transfer a reinsurance arrangement to another reinsurer, which may be less creditworthy, without a counterparty's consent, provided that the transfer has been approved by the applicable regulatory and/or court authority.

For additional information regarding reinsurance, see note 5 of notes to the consolidated financial statements and "Item 1A Risk Factors" herein. For a description of reinsurance-related litigation, see note 16 of notes to the consolidated financial statements herein.

Catastrophe Reinsurance

Catastrophes can be caused by a variety of 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 result from terrorist attacks and other intentionally destructive acts including those involving nuclear, biological, chemical, radiological, cyber-attacks, explosions and infrastructure failures. The incidence and severity of catastrophes are inherently unpredictable. The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Most catastrophes are restricted to small geographic areas; however, hurricanes and earthquakes may produce significant damage in larger areas, especially those areas that are heavily populated. The Company generally seeks to manage its exposure to catastrophes through individual risk selection and the purchase of catastrophe reinsurance. The following discussion summarizes the Company's catastrophe reinsurance coverage at December 31, 2015.

Corporate Catastrophe Excess-of-Loss Reinsurance Treaty. This treaty covers the accumulation of certain property losses arising from one or multiple occurrences for the period January 1, 2016 through and including December 31, 2016: 75% ($1.5 billion) of qualifying losses covered by the treaty and 25% ($500 million) of qualifying losses retained by the Company part of $2.0 billion excess of $3.0 billion. Qualifying losses for each occurrence are after a $100 million deductible. The treaty covers all of the Company's exposures in the United States and Canada and their territories and possessions, the Caribbean Islands, Mexico and all waters contiguous thereto. The treaty only provides coverage for terrorism events in limited circumstances and excludes entirely losses arising from nuclear, biological, chemical or radiological attacks.

Catastrophe Bonds. The Company has catastrophe protection through two indemnity reinsurance agreements with Long Point Re III Ltd. (Long Point Re III), an independent Cayman Islands company licensed as a Class C insurer in the Cayman Islands. The reinsurance agreements expire in May 2016 and May 2018, respectively, and both agreements meet the requirements to be accounted for as reinsurance in accordance with the guidance for reinsurance contracts. In connection with the reinsurance agreements, Long Point Re III issued notes (generally referred to as "catastrophe bonds") to investors in amounts equal to the full coverage provided under the reinsurance agreements as described below. The proceeds of both issuances were deposited in reinsurance trust accounts. The businesses covered by these reinsurance agreements are subsets of the Company's overall insurance portfolio, comprising specified property coverages spread across the following geographic locations: Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Virginia and Vermont.

One reinsurance agreement with Long Point Re III expires in May 2016 and provides coverage of up to $300 million to the Company for certain losses from hurricanes in the locations listed above. The Company will be entitled to begin recovering amounts under this reinsurance agreement if the losses in the covered area for a single occurrence reach an initial attachment amount of $1.058 billion. The full $300 million coverage amount is available on a proportional basis until such covered losses reach a maximum $1.608 billion. The coverage under the reinsurance agreement is limited to specified property coverage written in the Company's Personal Insurance segment, and within Select Accounts and Commercial Accounts in the Company's Business and International Insurance segment.

The other reinsurance agreement was entered into in May 2015 in connection with Long Point Re III's offering to unrelated investors of $300 million aggregate principal amount of catastrophe bonds. This reinsurance agreement expires in May 2018 and provides coverage of up to $300 million to the Company for losses from tropical cyclones, earthquakes, severe thunderstorms or winter storms in the locations listed above. The attachment point and maximum limit under this agreement will be reset annually to adjust the expected loss of the layer within a predetermined range. For the period May 16, 2015 through and including May 15, 2016, the Company will be entitled to begin recovering amounts under the reinsurance agreement if the losses in the covered area for a single occurrence reach an initial attachment amount of $2.0 billion. The full $300 million coverage amount is available on a proportional basis until such covered losses reach a maximum $2.50 billion. The coverage under the reinsurance agreement is limited to specified property coverage written in the Company's Personal Insurance segment; Select Accounts, Middle Market (excluding Excess Casualty and Global Partner Services), First Party (excluding Boiler & Machinery) and Specialized Distribution in the Company's Business and International Insurance segment; and Bond & Specialty Insurance Other in the Company's Bond & Specialty Insurance segment.

Under the terms of both reinsurance agreements, the Company is obligated to pay annual reinsurance premiums to Long Point Re III for the reinsurance coverage. Amounts payable to the Company under both reinsurance agreements with respect to any covered event cannot exceed the Company's actual losses from such event. The principal amount of the respective catastrophe bond will be reduced by any amounts paid to the Company under the respective reinsurance agreement.

As with any reinsurance agreement, there is credit risk associated with collecting amounts due from reinsurers. With regard to Long Point Re III, the credit risk is mitigated by reinsurance trust accounts that have been funded by Long Point Re III with money market funds that invest solely in direct government obligations and obligations backed by the U.S. government with maturities of no more than 13 months. The money market funds must have a principal stability rating of at least AAAm by Standard & Poor's on the issuance date of the bonds and thereafter must be rated by Standard & Poor's. Other permissible investments include money market funds which invest in repurchase and reverse repurchase agreements collateralized by direct government obligations and obligations of any agency backed by the U.S. government with terms of no more than 397 calendar days, and cash.

At the time the agreements were entered into with Long Point Re III, the Company evaluated the applicability of the accounting guidance that addresses variable interest entities or VIEs. Under this

Table of Contents

guidance, an entity that is formed for business purposes is considered a VIE if: (a) the equity investors lack the direct or indirect ability through voting rights or similar rights to make decisions about an entity's activities that have a significant effect on the entity's operations, or (b) the equity investors do not provide sufficient financial resources for the entity to support its activities. Additionally, a company that absorbs a majority of the expected losses from a VIE's activities or is entitled to receive a majority of the entity's expected residual returns, or both, is considered to be the primary beneficiary of the VIE and is required to consolidate the VIE in the company's financial statements.

As a result of the evaluation of the reinsurance agreements with Long Point Re III, the Company concluded that it was a VIE because the conditions described in items (a) and (b) above were present. However, while Long Point Re III was determined to be a VIE, the Company concluded that it did not have a variable interest in the entity, as the variability in its results, caused by the reinsurance agreements, is expected to be absorbed entirely by the investors in the catastrophe bonds issued by Long Point Re III and residual amounts earned by it, if any, are expected to be absorbed by the equity investors (the Company has neither an equity nor a residual interest in Long Point Re III).

Accordingly, the Company is not the primary beneficiary of Long Point Re III and does not consolidate that entity in the Company's consolidated financial statements. Additionally, because the Company has no intention to pursue any transaction that would result in it acquiring interest in and becoming the primary beneficiary of Long Point Re III, the consolidation of that entity in the Company's consolidated financial statements in future periods is unlikely.

The Company has not incurred any losses that have resulted or are expected to result in a recovery under the Long Point Re III agreements since their inception.

Northeast General Catastrophe Reinsurance Treaty. This northeast general catastrophe treaty provides up to $800 million part of $850 million of coverage, subject to a $2.25 billion retention, for certain losses arising from hurricanes, tornados, hail storms, earthquakes and winter storm or freeze losses from Virginia to Maine for the period July 1, 2015 through and including June 30, 2016. Losses from a covered event (occurring over several days) anywhere in the United States, Canada, the Caribbean and Mexico and waters contiguous thereto may be used to satisfy the retention. Recoveries (if any) under the catastrophe bonds described above would be first applied to reduce losses subject to this treaty.

Middle Markets Earthquake Catastrophe Excess-of-Loss Reinsurance Treaty. This earthquake excess-of-loss treaty provides for up to $150 million part of $165 million of coverage, subject to a $60 million retention, for losses arising from an earthquake, including fire following and sprinkler leakage incurred under policies written by Technology, Public Sector Services and Commercial Accounts in the Company's Business and International Insurance segment for the period July 1, 2015 through and including June 30, 2016.

Personal Insurance Earthquake Excess-of-Loss Reinsurance Treaty. This earthquake excess-of-loss treaty provides for up to $200 million of coverage, subject to a $150 million retention, for losses arising from an earthquake, including fire following and sprinkler leakage incurred under policies written by the Company's Personal Insurance segment for the period January 1, 2016 through December 31, 2016.

Canadian Property Catastrophe Excess-of-Loss Reinsurance Contract. This contract covers the accumulation of net property losses arising out of one occurrence on business written by the Company's Canadian businesses for the period July 1, 2015 through and including June 30, 2016. The treaty covers all property written by the Company's Canadian businesses for Canadian insureds, including, but not limited to, habitational property, commercial property, inland marine, ocean marine and auto physical damages exposures, with respect to risks located worldwide, written for Canadian insureds. The treaty provides coverage for 100% of loss retained in excess of C$100 million (US$72 million at December 31, 2015), up to C$800 million (US$578 million at December 31, 2015).

Table of Contents

Other International Reinsurance Treaties. For other business underwritten in Canada, as well as for business written in the United Kingdom, the Republic of Ireland, Brazil and in the Company's operations at Lloyd's, separate reinsurance protections are purchased locally that have lower net retentions more commensurate with the size of the respective local balance sheet. The Company conducts an ongoing review of its risk and catastrophe coverages and makes changes as it deems appropriate.

Terrorism Risk Insurance Program. The Terrorism Risk Insurance Program is a Federal program administered by the Department of the Treasury authorized through December 31, 2020 that provides for a system of shared public and private compensation for certain insured losses resulting from certified acts of terrorism. For a further description of the program, including the Company's estimated deductible under the program in 2016, see note 5 of notes to the consolidated financial statements and "Item 1A Risk Factors Catastrophe losses could materially and adversely affect our results of operations, our financial position and/or liquidity, and could adversely impact our ratings, our ability to raise capital and the availability and cost of reinsurance" herein.

CLAIMS AND CLAIM ADJUSTMENT EXPENSE RESERVES

Claims and claim adjustment expense reserves represent management's estimate of ultimate unpaid costs of losses and loss adjustment expenses for claims that have been reported and claims that have been incurred but not yet reported.

The Company continually refines its reserve estimates as part of a regular ongoing process that includes review of key assumptions, underlying variables and historical loss experience. The Company reflects adjustments to reserves in the results of operations in the periods in which the estimates are changed. In establishing reserves, the Company takes into account estimated recoveries for reinsurance, salvage and subrogation. The reserves are also reviewed regularly by qualified actuaries employed by the Company. For additional information on the process of estimating reserves and a discussion of underlying variables and risk factors, see "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates."

The process of estimating loss reserves involves a high degree of judgment and is subject to a number of variables. These variables (discussed by product line in the "Critical Accounting Estimates" section of "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations") are affected by both internal and external events, such as changes in claims handling procedures, inflation, judicial trends and legislative changes, among others. The impact of many of these items on ultimate costs for claims and claim adjustment expenses is difficult to estimate. Reserve estimation difficulties also differ significantly by product line due to differences in the underlying insurance contract (e.g., claims-made versus occurrence), claim complexity, the volume of claims, the potential severity of individual claims, the determination of the occurrence date for a claim, and reporting lags (the time between the occurrence of the insured event and when it is actually reported to the insurer). Informed judgment is applied throughout the process.

The Company derives estimates for unreported claims and development with respect to reported claims principally from actuarial analyses of historical patterns of loss development by accident year for each type of exposure and business unit. Similarly, the Company derives estimates of unpaid loss adjustment expenses principally from actuarial analyses of historical development patterns of the relationship of loss adjustment expenses to losses for each line of business and type of exposure. For a description of the Company's reserving methods for asbestos and environmental claims, see "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Asbestos Claims and Litigation," and " Environmental Claims and Litigation."

Certain of the Company's claims and claim adjustment expense reserves are discounted to present value. See note 1 of notes to the consolidated financial statements herein for further discussion.

Table of Contents

Claims and Claim Adjustment Expense Development Table

The table that follows sets forth the year-end reserves from 2005 through 2015 and the subsequent changes in those reserves, presented on a historical basis. The original estimates, cumulative amounts paid and re-estimated reserves in the table for 2005 through 2012 have not been restated to reflect the acquisition of Dominion in November 2013 or the acquisition of Travelers Participações em Seguros Brasil S.A. in October 2015. The table includes Dominion's reserves beginning at December 31, 2013 and Travelers Participações em Seguros Brasil S.A.'s reserves beginning at December 31, 2015.

The data in the table is presented in accordance with reporting requirements of the Securities and Exchange Commission (SEC). Care must be taken to avoid misinterpretation by those unfamiliar with this information or familiar with other data commonly reported by the insurance industry. The data in the table is not accident year data, but rather a display of 2005 to 2015 year-end reserves and the subsequent changes in those reserves.

For instance, the cumulative deficiency or redundancy shown in the table for each year represents the aggregate amount by which original estimates of reserves as of that year-end have changed in subsequent years. Accordingly, the cumulative deficiency or redundancy for a year relates only to reserves at that year-end and those amounts are not additive. Expressed another way, if the original reserves at the end of 2005 included $4 million for a loss that is finally paid in 2009 for $5 million, the $1 million deficiency (the excess of the actual payment of $5 million over the original estimate of $4 million) would be included as a reduction in the cumulative redundancies in each of the years 2005 to 2008 shown in the accompanying table.

Various factors may distort the re-estimated reserves and cumulative deficiency or redundancy shown in the table. For example, each year is impacted by claims on policies written prior to the mid-1980's involving liability exposures such as asbestos and environmental claims. In the post-1984 period, the Company has developed more stringent underwriting standards and policy exclusions and has significantly contracted or terminated the writing of these risks. See "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Asbestos Claims and Litigation," and " Environmental Claims and Litigation." General conditions and trends that have affected the development of these liabilities in the past will not necessarily recur in the future.

Other factors that affect the data in the table include the discounting of certain reserves (as discussed above) and the use of retrospectively rated insurance policies. For example, reserves for long-term disability and annuity claim payments (tabular reserves), primarily arising from workers' compensation insurance and workers' compensation excess insurance policies, are discounted to reflect the time value of money. Apparent deficiencies will continue to occur as the discount on these workers' compensation reserves is accreted at a 5% interest rate. Also, a portion of National Accounts business is underwritten with retrospectively rated insurance policies in which the ultimate loss experience is primarily borne by the insured. For this business, increases in loss experience result in an increase in reserves and an offsetting increase in amounts recoverable from insureds. Likewise, decreases in loss experience result in a decrease in reserves and an offsetting decrease in amounts recoverable from these insureds. The amounts recoverable on these retrospectively rated policies mitigate the impact of the cumulative deficiencies or redundancies on the Company's earnings but are not reflected in the table.

Table of Contents

Because of these and other factors, it is difficult to develop a meaningful extrapolation of estimated future redundancies or deficiencies in loss reserves from the data in the table.

(at December 31, in millions)	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Reserves for claims and claim adjustment expense originally estimated	$ 42,895	$ 42,844	$ 43,098	$ 41,312	$ 40,941	$ 40,255	$ 40,919	$ 40,634	$ 41,585	$ 41,036	$ 39,823
Cumulative amounts paid as of											
One year later	8,632	7,417	8,146	7,519	7,748	7,653	8,326	8,416	8,099	8,669	
Two years later	13,837	13,181	12,798	12,454	12,374	12,567	13,447	13,452	14,033		
Three years later	18,466	16,545	16,264	15,668	15,708	16,081	17,049	17,701			
Four years later	21,025	19,113	18,524	18,053	18,126	18,634	20,239				
Five years later	22,992	20,820	20,244	19,824	19,957	21,082					
Six years later	24,423	22,205	21,609	21,319	21,966						
Seven years later	25,616	23,381	22,869	23,075							
Eight years later	26,675	24,534	24,492								
Nine years later	27,741	26,059									
Ten years later	29,196										
Reserves re-estimated as of											
One year later	42,466	42,172	41,373	39,863	39,524	39,413	39,845	39,690	40,628	40,139	
Two years later	42,311	40,837	39,925	38,640	38,421	38,393	38,964	38,931	39,875		
Three years later	41,692	39,739	38,842	37,613	37,539	37,576	38,402	38,511			
Four years later	40,855	38,734	38,223	36,892	36,889	37,179	38,196				
Five years later	40,026	38,409	37,716	36,361	36,605	37,046					
Six years later	39,849	38,134	37,323	36,240	36,516						
Seven years later	39,694	37,858	37,356	36,190							
Eight years later	39,518	37,977	37,388								
Nine years later	39,705	38,031									
Ten years later	39,847										
Cumulative redundancy	(3,048)	(4,813)	(5,710)	(5,122)	(4,425)	(3,209)	(2,723)	(2,123)	(1,710)	(897)	
Gross liability end of year	$ 61,461	$ 59,677	$ 58,094	$ 55,121	$ 53,529	$ 51,537	$ 51,353	$ 50,888	$ 50,865	$ 49,824	$ 48,272
Reinsurance recoverables	18,566	16,833	14,996	13,809	12,588	11,282	10,434	10,254	9,280	8,788	8,449
Net liability end of year	$ 42,895	$ 42,844	$ 43,098	$ 41,312	$ 40,941	$ 40,255	$ 40,919	$ 40,634	$ 41,585	$ 41,036	$ 39,823
Gross re-estimated liability-latest	$ 57,819	$ 53,514	$ 51,099	$ 48,527	$ 47,783	$ 47,443	$ 48,092	$ 49,022	$ 49,171	$ 49,068	
Re-estimated reinsurance recoverables-latest	17,972	15,483	13,711	12,337	11,267	10,397	9,896	10,511	9,296	8,929	
Net re-estimated liability-latest	$ 39,847	$ 38,031	$ 37,388	$ 36,190	$ 36,516	$ 37,046	$ 38,196	$ 38,511	$ 39,875	$ 40,139	
Gross cumulative redundancy	$ (3,642)	$ (6,163)	$ (6,995)	$ (6,594)	$ (5,746)	$ (4,094)	$ (3,261)	$ (1,866)	$ (1,694)	$ (756)	

For years prior to 2013, the table excludes reserves of Dominion, which were acquired by the Company on November 1, 2013. Accordingly, the reserve development for years prior to 2013 does not include reserve development recorded by Dominion. At December 31, 2013, Dominion's gross reserves were $2,110 million, and net reserves were $1,779 million. For years prior to 2015, the table excludes the reserves of Travelers Participações em Seguros Brasil S.A., which were acquired by the Company on October 1, 2015. Accordingly, the reserve development for years prior to 2015 does not include reserve development recorded by Travelers Participações em Seguros Brasil S.A. At December 31, 2015, those gross reserves were $3 million, and net reserves were $2 million.

In December 2008, the Company completed the sale of Unionamerica Holdings Limited (Unionamerica), which comprised its United Kingdom-based runoff insurance and reinsurance businesses. Immediately before the sale, the claims and claim adjustment expense reserves of Unionamerica totaled $790 million. As a result of the sale, those obligations ceased being the responsibility of the Company and its affiliates. The sale is reflected in the table as a reduction in December 31, 2008 net reserves of $790 million and as a $790 million increase in paid losses for each of the years 2005 through 2007 to reflect the transfer (payment) of the reserves to the buyer, resulting in no impact to incurred losses.

Table of Contents

The gross and net cumulative redundancy by calendar year as set forth in the table above includes the following impact of unfavorable prior year reserve development related to asbestos and environmental claims and claim adjustment expenses, in millions:

Asbestos	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Gross	$ 1,840	$ 1,643	$ 1,644	$ 1,574	$ 1,389	$ 1,127	$ 932	$ 761	$ 571	$ 313
Net	$ 1,565	$ 1,409	$ 1,409	$ 1,339	$ 1,154	$ 1,014	$ 839	$ 664	$ 474	$ 224

Environmental	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Gross	$ 931	$ 823	$ 641	$ 556	$ 471	$ 426	$ 346	$ 247	$ 175	$ 81
Net	$ 885	$ 765	$ 580	$ 495	$ 425	$ 390	$ 314	$ 224	$ 159	$ 72

Reserves on Statutory Accounting Basis

At December 31, 2015, 2014 and 2013, claims and claim adjustment expense reserves (net of reinsurance) shown in the preceding table, which are prepared in accordance with U.S. generally accepted accounting principles (GAAP reserves), were $41 million higher, $29 million higher and $17 million higher respectively, than those reported in the Company's respective annual reports filed with insurance regulators, which are prepared in accordance with statutory accounting practices (statutory reserves).

The differences between GAAP and statutory reserves are primarily due to the differences in GAAP and statutory accounting for two items: (1) fees associated with billing of required reimbursements under large deductible business, and (2) the accounting for retroactive reinsurance. For large deductible business, the Company pays the deductible portion of a casualty insurance claim and then seeks reimbursement from the insured, plus a fee. This fee is reported as fee income for GAAP reporting, but as an offset to claim expenses paid for statutory reporting. Retroactive reinsurance balances result from reinsurance placed to cover losses on insured events occurring prior to the inception of a reinsurance contract. For GAAP reporting, retroactive reinsurance balances are included in reinsurance recoverables and result in lower net reserve amounts. Statutory accounting practices require retroactive reinsurance balances to be recorded in other liabilities as contra-liabilities rather than in loss reserves.

Asbestos and Environmental Claims

Asbestos and environmental claims are segregated from other claims and are handled separately by the Company's Special Liability Group, a separate unit staffed by dedicated legal, claim, finance and engineering professionals. For additional information on asbestos and environmental claims, see "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Asbestos Claims and Litigation" and " Environmental Claims and Litigation."

INTERCOMPANY REINSURANCE POOLING ARRANGEMENTS

Most of the Company's domestic insurance subsidiaries are members of an intercompany property and casualty reinsurance pooling arrangement. Pooling arrangements permit the participating companies to rely on the capacity of the entire pool's statutory capital and surplus rather than just on its own statutory capital and surplus. Under such arrangements, the members share substantially all insurance business that is written and allocate the combined premiums, losses and expenses.

RATINGS

Ratings are an important factor in assessing the Company's competitive position in the insurance industry. The Company receives ratings from the following major rating agencies: A.M. Best Company (A.M. Best), Fitch Ratings (Fitch), Moody's Investors Service (Moody's) and Standard & Poor's Corp.

Table of Contents

(S&P). Rating agencies typically issue two types of ratings for insurance companies: claims-paying (or financial strength) ratings which reflect the rating agency's assessment of an insurer's ability to meet its financial obligations to policyholders, and debt ratings, which reflect the rating agency's assessment of a company's prospects for repaying its debts and are considered by lenders in connection with the setting of interest rates and terms for a company's short- and long-term borrowings. Agency ratings are not a recommendation to buy, sell or hold any security, and they may be revised or withdrawn at any time by the rating agency. Each agency's rating should be evaluated independently of any other agency's rating. The system and the number of rating categories can vary widely from rating agency to rating agency. Customers usually focus on claims-paying ratings, while creditors focus on debt ratings. Investors use both to evaluate a company's overall financial strength. The ratings issued on the Company or its subsidiaries by any of these agencies are announced publicly and are available on the Company's website and from the agencies.

A downgrade in one or more of the Company's claims-paying ratings could negatively impact the Company's business volumes and competitive position because demand for certain of its products may be reduced, particularly because some customers require that the Company maintain minimum ratings to enter into, maintain or renew business with it.

Additionally, a downgrade in one or more of the Company's debt ratings could adversely impact the Company's ability to access the capital markets and other sources of funds, including in the syndicated bank loan market, and/or result in higher financing costs. For example, downgrades in the Company's debt ratings could result in higher interest expense under the Company's revolving credit agreement (under which the cost of borrowing could range from LIBOR plus 87.5 basis points to LIBOR plus 150 basis points, depending on the Company's debt ratings), the Company's commercial paper program, or in the event that the Company were to access the capital markets by issuing debt or similar types of securities. See "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources" for a discussion of the Company's revolving credit agreement and commercial paper program. The Company considers the level of increased cash funding requirements in the event of a ratings downgrade as part of the evaluation of the Company's liquidity requirements. The Company currently believes that a one- to two-notch downgrade in its debt ratings would not result in a material increase in interest expense under its existing credit agreement and commercial paper programs. In addition, the Company considers the impact of a ratings downgrade as part of the evaluation of its common share repurchases.

Claims Paying Ratings

The following table summarizes the current claims-paying (or financial strength) ratings of the Travelers Reinsurance Pool, Travelers C&S Co. of America, Travelers Personal Insurance single state companies, Travelers C&S Co. of Europe, Ltd., Travelers Insurance Company of Canada, The

Table of Contents

Dominion of Canada General Insurance Company and Travelers Insurance Company Limited as of February 11, 2016. The table presents the position of each rating in the applicable agency's rating scale.

	A.M. Best	Moody's	S&P	Fitch
Travelers Reinsurance Pool(a)(b)	A++ (1st of 16)	Aa2 (3rd of 21)	AA (3rd of 21)	AA (3rd of 21)
Travelers C&S Co. of America	A++ (1st of 16)	Aa2 (3rd of 21)	AA (3rd of 21)	AA (3rd of 21)
First Floridian Auto and Home Ins. Co.	A (4th of 16)			AA (3rd of 21)
The Premier Insurance Company of Massachusetts	A (3rd of 16)			
Travelers C&S Co. of Europe, Ltd.	A++ (1st of 16)	Aa2 (3rd of 21)	AA (3rd of 21)	
Travelers Insurance Company of Canada	A++ (1st of 16)		AA (4th of 21)	
The Dominion of Canada General Insurance Company	A (3rd of 16)			
Travelers Insurance Company Limited	A (3rd of 16)		AA (3rd of 21)	

(a) The Travelers Reinsurance Pool consists of: The Travelers Indemnity Company, The Charter Oak Fire Insurance Company, The Phoenix Insurance Company, The Travelers Indemnity Company of Connecticut, The Travelers Indemnity Company of America, Travelers Property Casualty Company of America, Travelers Commercial Casualty Company, TravCo Insurance Company, The Travelers Home and Marine Insurance Company, Travelers Casualty and Surety Company, Northland Insurance Company, Northfield Insurance Company, Northland Casualty Company, American Equity Specialty Insurance Company, The Standard Fire Insurance Company, The Automobile Insurance Company of Hartford, Connecticut, Travelers Casualty Insurance Company of America, Farmington Casualty Company, Travelers Commercial Insurance Company, Travelers Casualty Company of Connecticut, Travelers Property Casualty Insurance Company, Travelers Personal Security Insurance Company, Travelers Personal Insurance Company, Travelers Excess and Surplus Lines Company, St. Paul Fire and Marine Insurance Company, St. Paul Surplus Lines Insurance Company, The Travelers Casualty Company, St. Paul Protective Insurance Company, Travelers Constitution State Insurance Company, St. Paul Guardian Insurance Company, St. Paul Mercury Insurance Company, Fidelity and Guaranty Insurance Underwriters, Inc., Discover Property & Casualty Insurance Company, Discover Specialty Insurance Company and United States Fidelity and Guaranty Company.

(b) The following affiliated companies are 100% reinsured by one of the pool participants noted in (a) above: Fidelity and Guaranty Insurance Company, Gulf Underwriters Insurance Company, American Equity Insurance Company, Select Insurance Company, The Travelers Lloyds Insurance Company and Travelers Lloyds of Texas Insurance Company.

Debt Ratings

The following table summarizes the current debt, trust preferred securities and commercial paper ratings of the Company and its subsidiaries as of February 11, 2016. The table also presents the position of each rating in the applicable agency's rating scale.

	A.M. Best	Moody's	S&P	Fitch
Senior debt	a+ (5th of 22)	A2 (6th of 21)	A (6th of 22)	A (6th of 22)
Subordinated debt	a (7th of 22)	A3 (7th of 21)	A (7th of 22)	BBB+ (8th of 22)
Junior subordinated debt	bbb+ (8th of 22)	A3 (7th of 21)	BBB+ (8th of 22)	BBB+ (8th of 22)
Trust preferred securities	bbb+ (8th of 22)	A3 (7th of 21)	BBB+ (8th of 22)	BBB+ (8th of 22)
Commercial paper	AMB-1+(1st of 6)	P-1 (1st of 4)	A-1 (2nd of 10)	F-1 (2nd of 8)

Rating Agency Actions

The following rating agency actions were taken with respect to the Company from February 12, 2015, the date on which the Company filed its Annual Report on Form 10-K for the year ended December 31, 2014, through February 11, 2016:

On May 28, 2015, A.M. Best affirmed all ratings of the Company, except for Travelers Insurance Company Limited, which were affirmed on December 4, 2015. The outlook for all ratings is stable.

On June 9, 2015, Fitch affirmed all ratings of the Company. The outlook for all ratings is stable.

On August 28, 2015, Fitch affirmed all ratings of the Company. The outlook for all ratings is stable.

On December 2, 2015, Fitch affirmed all ratings of the Company. The outlook for all ratings is stable.

INVESTMENT OPERATIONS

The majority of funds available for investment are deployed in a widely diversified portfolio of high quality, liquid, taxable U.S. government, tax-exempt U.S. municipal and taxable corporate and U.S. agency mortgage-backed bonds. The Company closely monitors the duration of its fixed maturity investments, and the Company's investment purchases and sales are executed with the objective of having adequate funds available to satisfy its insurance and debt obligations. Generally, the expected principal and interest payments produced by the Company's fixed maturity portfolio adequately fund the estimated runoff of the Company's insurance reserves. The Company's management of the duration of the fixed maturity investment portfolio, including its use of Treasury futures at times, has produced a duration that is less than the estimated duration of the Company's net insurance liabilities. The substantial amount by which the fair value of the fixed maturity portfolio exceeds the value of the net insurance liabilities, as well as the positive cash flow from newly sold policies and the large amount of high quality liquid bonds, contributes to the Company's ability to fund claim payments without having to sell illiquid assets or access credit facilities.

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

See note 3 of notes to the consolidated financial statements herein for additional information regarding the Company's investment portfolio.

REGULATION

U.S. State and Federal Regulation

TRV's domestic insurance subsidiaries are collectively licensed to transact insurance business in all U.S. states, the District of Columbia, Guam, Puerto Rico and the U.S. Virgin Islands and are subject to regulation in the various states and jurisdictions in which they transact business. The extent of regulation varies, but generally derives from statutes that delegate regulatory, supervisory and administrative authority to a department of insurance in each state and jurisdiction. The regulation, supervision and administration relate, among other things, to standards of solvency that must be met and maintained, the licensing of insurers and their agents, the nature of and limitations on investments, premium rates, restrictions on the size of risks that may be insured under a single policy, reserves and provisions for unearned premiums, losses and other obligations, deposits of securities for the benefit of policyholders, approval of policy forms and the regulation of market conduct, including the use of

Table of Contents

credit information in underwriting as well as other underwriting and claims practices. State insurance departments also conduct periodic examinations of the financial condition and market conduct of insurance companies and require the filing of financial and other reports on a quarterly and annual basis.

State insurance regulation continues to evolve in response to the changing economic and business environment as well as efforts by regulators internationally to develop a consistent approach to regulation. While the U.S. federal government has not historically regulated the insurance business, in 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act established a Federal Insurance Office (FIO) within the U.S. Department of the Treasury. While the FIO has limited regulatory authority, it has been active in the discussions to develop international regulatory standards for the insurance industry. In response to these international efforts, the state insurance regulators, through the National Association of Insurance Commissioners, are working with the Federal Reserve and the FIO to consider and develop changes to the U.S. regulatory framework. These changes are evidenced by the incorporation of supervisory colleges into the U.S. regulatory framework. A supervisory college is a forum of the regulators having jurisdictional authority over a holding company's various insurance subsidiaries, including foreign insurance subsidiaries, convened to meet with the insurer's executive management, to evaluate the insurer from both a group-wide and legal-entity basis. Some of the items evaluated during the colleges include the insurer's business strategies, enterprise risk management and corporate governance. The state of Connecticut is the lead regulator for TRV and conducts the supervisory colleges for the Company.

Insurance Regulation Concerning Dividends from Insurance Subsidiaries. TRV's principal domestic insurance subsidiaries are domiciled in the state of Connecticut. The Connecticut insurance holding company laws require notice to, and approval by, the state insurance commissioner for the declaration or payment of any dividend from an insurance subsidiary that, together with other distributions made within the preceding twelve months, exceeds the greater of 10% of the insurance subsidiary's statutory capital and surplus as of the preceding December 31, or the insurance subsidiary's net income for the twelve-month period ending the preceding December 31, in each case determined in accordance with statutory accounting practices and by state regulation. This declaration or payment is further limited by adjusted unassigned surplus, as determined in accordance with statutory accounting practices.

The insurance holding company laws of other states in which TRV's domestic insurance subsidiaries are domiciled generally contain similar, although in some instances somewhat more restrictive, limitations on the payment of dividends.

Rate and Rule Approvals. TRV's domestic insurance subsidiaries are subject to each state's laws and regulations regarding rate and rule approvals. The applicable laws and regulations generally establish standards to ensure that rates are not excessive, inadequate, unfairly discriminatory or used to engage in unfair price competition. An insurer's ability to adjust rates and the relative timing of the process are dependent upon each state's requirements. Many states have enacted variations of competitive ratemaking laws, which allow insurers to set certain premium rates for certain classes of insurance without having to obtain the prior approval of the state insurance department.

Requirements for Exiting Geographic Markets and/or Canceling or Nonrenewing Policies. Several states have laws and regulations which may impact the timing and/or the ability of an insurer to either discontinue or substantially reduce its writings in that state. These laws and regulations typically require prior notice, and in some instances insurance department approval, prior to discontinuing a line of business or withdrawing from that state, and they allow insurers to cancel or non-renew certain policies only for certain specified reasons.

Assessments for Guaranty Funds and Second-Injury Funds and Other Mandatory Assigned Risk and Reinsurance Arrangements. Virtually all states require insurers licensed to do business in their state,

Table of Contents

including TRV's domestic insurance subsidiaries, to bear a portion of the loss suffered by some claimants because of the insolvency of other insurers. Many states also have laws that establish second-injury funds to provide compensation to injured employees for aggravation of a prior condition or injury.

TRV's domestic insurance subsidiaries are also required to participate in various involuntary assigned risk pools, principally involving workers' compensation, automobile insurance, property windpools in states prone to property damage from hurricanes and FAIR plans, as well as automobile assigned risk plans the results of which are not pooled with other carriers, which provide various insurance coverages to individuals or other entities that otherwise are unable to purchase that coverage in the voluntary market.

Assessments may include any charge mandated by statute or regulatory authority that is related directly or indirectly to underwriting activities. Examples of such mechanisms include, but are not limited to, the Florida Hurricane Catastrophe Fund, Florida Citizens Property Insurance Corporation, National Workers' Compensation Reinsurance Pool, various workers' compensation related funds (e.g., the New York Special Disability Fund), North Carolina Beach Plan, Louisiana Citizens Property Insurance Corporation, and the Texas Windstorm Insurance Association. Amounts payable or paid as a result of arrangements that are in substance reinsurance, including certain involuntary pools where insurers are required to assume premiums and losses from those pools, are accounted for as reinsurance (e.g., National Workers' Compensation Reinsurance Pool, North Carolina Beach Plan). Amounts related to assessments from arrangements that are not reinsurance are reported as a component of "General and Administrative Expenses," such as the New York Special Disability Fund. For additional information concerning assessments for guaranty funds and second-injury funds and other mandatory assigned risk and reinsurance agreements including state-funding mechanisms, see "Item 1A Risk Factors."

Insurance Regulatory Information System. The National Association of Insurance Commissioners (NAIC) developed the Insurance Regulatory Information System (IRIS) to help state regulators identify companies that may require regulatory attention. Financial examiners review annual financial statements and the results of key financial ratios based on year-end data with the goal of identifying insurers that appear to require immediate regulatory attention. Each ratio has an established "usual range" of results. A ratio result falling outside the usual range, however, is not necessarily considered adverse; rather, unusual values are used as part of the regulatory early monitoring system. Furthermore, in some years, it may not be unusual for financially sound companies to have several ratios with results outside the usual ranges. Generally, an insurance company may become subject to regulatory scrutiny or, depending on the company's financial condition, regulatory action if certain of its key IRIS ratios fall outside the usual ranges and the insurer's financial condition is trending downward.

Based on preliminary 2015 IRIS ratios calculated by the Company for its lead domestic insurance subsidiaries, The Travelers Indemnity Company had results outside the normal range for one IRIS ratio due to the size of their investments in certain non-fixed maturity securities, while Travelers Casualty and Surety Company had results outside the normal range for one IRIS ratio due to the amount of dividends received from its subsidiaries. These same subsidiaries had results outside the normal range for these same ratios in 2014. Additionally, St. Paul Fire and Marine Insurance Company had results outside the normal range for one IRIS ratio due to the size of their investments in certain non-fixed maturity securities in 2014.

Management does not anticipate regulatory action as a result of the 2015 IRIS ratio results for the lead insurance subsidiaries or their insurance subsidiaries. In all instances in prior years, regulators have been satisfied upon follow-up that no regulatory action was required.

Risk-Based Capital (RBC) Requirements. The NAIC has an RBC requirement for most property and casualty insurance companies, which determines minimum capital requirements and is intended to raise the level of protection for policyholder obligations. The Company's U.S. insurance subsidiaries are subject to these NAIC RBC requirements based on laws that have been adopted by individual states. These requirements subject insurers having policyholders' surplus less than that required by the RBC calculation to varying degrees of regulatory action, depending on the level of capital inadequacy. Each of the Company's U.S. insurance subsidiaries had policyholders' surplus at December 31, 2015 significantly above the level at which any RBC regulatory action would occur.

While there is currently no group regulatory capital requirement in the United States, a comparison of an insurer's policyholders' surplus on a combined basis to the legal entity NAIC RBC requirements on a combined basis can provide useful information regarding an insurance group's overall capital adequacy in the U.S. The amount of policyholders' surplus held by the Company's U.S. insurance subsidiaries at December 31, 2015 determined on a combined basis significantly exceeded the level at which the subsidiaries would be subject to RBC regulatory action (company action level) on a combined basis at that date.

The formulas have not been designed to differentiate among adequately capitalized companies that operate with levels of capital above the RBC requirement. Therefore, it is inappropriate and ineffective to use the formulas to rate or to rank these companies.

Investment Regulation. Insurance company investments must comply with applicable laws and regulations which prescribe the kind, quality and concentration of investments. In general, these laws and regulations permit investments in federal, state and municipal obligations, corporate bonds, preferred and common equity securities, mortgage loans, real estate and certain other investments, subject to specified limits and certain other qualifications. At December 31, 2015, the Company was in compliance with these laws and regulations.

International Regulation

TRV's insurance subsidiaries based in Canada, and the Canadian branch of one of the Company's U.S. insurance subsidiaries, are regulated for solvency purposes by the Office of the Superintendent of Financial Institutions under the provisions of the Insurance Companies Act (Canada). These Canadian subsidiaries and the Canadian branch are also subject to Canadian provincial and territorial insurance legislation which regulates market conduct, including pricing, underwriting, coverage and claim conduct, in varying degrees by province/territory and by product line.

TRV's insurance subsidiaries based in the United Kingdom are regulated by two regulatory bodies, The Prudential Regulation Authority (PRA) and The Financial Conduct Authority (FCA). The PRA's primary objective is to promote the safety and soundness of insurers for the protection of policyholders, while the FCA has three operational objectives: (i) to secure an appropriate degree of protection for consumers, (ii) to protect and enhance the integrity of the UK financial system, and (iii) to promote effective competition in the interests of consumers. TRV's insurance operations in the Republic of Ireland are conducted through the Irish branch of Travelers Insurance Company Limited which is regulated by the Insurance Supervision Departments of the Central Bank of Ireland (as to conduct) and also by the PRA.

TRV's managing agency (Travelers Syndicate Management Ltd.) of its Lloyd's syndicate (Travelers Syndicate 5000) is also regulated by the PRA and the FCA, which have delegated certain regulatory responsibilities to the Council of Lloyd's. Travelers Syndicate 5000 is able to write business in over 75 jurisdictions throughout the world by virtue of Lloyd's international licenses. In each such jurisdiction, the policies written by Travelers Syndicate Management Ltd., as part of Lloyd's, are subject to the laws and insurance regulations of that jurisdiction. Travelers Underwriting Agency Limited, which as an insurance intermediary is regulated by the FCA, produces insurance business for Travelers Syndicate 5000.

Table of Contents

A TRV subsidiary, Travelers Casualty and Surety Company, has a representative office in China. The representative office is regulated by the China Insurance Regulatory Commission. A TRV subsidiary, TCI Global Services, Inc., has a liaison office in India. Insurance business in India is regulated by the Insurance Regulatory and Development Authority. TRV's Brazilian operations are regulated by the Superintendencia de Seguros Privados.

Regulators in these jurisdictions require insurance companies to maintain certain levels of capital depending on, among other things, the type and amount of insurance policies in force. Each of the Company's foreign insurance subsidiaries had capital significantly above their respective regulatory requirements at December 31, 2015.

Insurance Holding Company Statutes

As a holding company, TRV is not regulated as an insurance company. However, since TRV owns capital stock in insurance subsidiaries, it is subject to state insurance holding company statutes, as well as certain other laws, of each of its insurance subsidiaries' states of domicile. All holding company statutes, as well as other laws, require disclosure and, in some instances, prior approval of material transactions between an insurance company and an affiliate. The holding company statutes and other laws also require, among other things, prior approval of an acquisition of control of a domestic insurer, some transactions between affiliates and the payment of extraordinary dividends or distributions.

Insurance Regulations Concerning Change of Control. Many state insurance regulatory laws contain provisions that require advance approval by state agencies of any change in control of an insurance company that is domiciled, or, in some cases, having substantial business that it is deemed to be commercially domiciled, in that state.

The laws of many states also contain provisions requiring pre-notification to state agencies prior to any change in control of a non-domestic insurance company admitted to transact business in that state. While these pre-notification statutes do not authorize the state agency to disapprove the change of control, they do authorize issuance of cease and desist orders with respect to the non-domestic insurer if it is determined that some conditions, such as undue market concentration, would result from the acquisition.

Any transactions that would constitute a change in control of any of TRV's insurance subsidiaries would generally require prior approval by the insurance departments of the states in which the insurance subsidiaries are domiciled or commercially domiciled. They may also require pre-acquisition notification in those states that have adopted pre-acquisition notification provisions and in which such insurance subsidiaries are admitted to transact business.

Two of TRV's insurance subsidiaries and its operations at Lloyd's are domiciled in the United Kingdom. Insurers in the United Kingdom are subject to change of control restrictions, including approval of the PRA and FCA. TRV's insurance subsidiaries domiciled in, or authorized to conduct insurance business in, Canada are also subject to regulatory change of control restrictions, including approval of the Office of the Superintendent of Financial Institutions. TRV's Brazilian operations are subject to regulatory change of control and other share transfer restrictions, including approval of the Brazilian insurance regulator.

These requirements may deter, delay or prevent transactions affecting the control of or the ownership of common stock, including transactions that could be advantageous to TRV's shareholders.

Regulatory Developments

For a discussion of domestic and international regulatory developments, see "Item 1A Risk Factors" including "Changes in federal regulation could impose significant burdens on us and otherwise adversely impact our results" and "Regulatory changes outside of the United States, including in

Table of Contents

Canada and the European Union, could adversely impact our results of operations and limit our growth."

ENTERPRISE RISK MANAGEMENT

As a large property and casualty insurance enterprise, the Company is exposed to many risks. These risks are a function of the environments within which the Company operates. Since certain risks can be correlated with other risks, an event or a series of events can impact multiple areas of the Company simultaneously and have a material effect on the Company's results of operations, financial position and/or liquidity. These exposures require an entity-wide view of risk and an understanding of the potential impact on all aspects of the Company's operations. It also requires the Company to manage its risk-taking to be within its risk appetite in a prudent and balanced effort to create and preserve value for all of the Company's stakeholders. This approach to Company-wide risk evaluation and management is commonly called Enterprise Risk Management (ERM). ERM activities involve both the identification and assessment of a broad range of risks and the execution of synchronized strategies to effectively manage such risks. Effective ERM also includes the determination of the Company's risk capital needs, which takes into account regulatory requirements and credit rating considerations, in addition to economic and other factors.

ERM at the Company is an integral part of its business operations. All corporate leaders and the board of directors are engaged in ERM. ERM involves risk-based analytics, as well as reporting and feedback throughout the enterprise in support of the Company's long-term financial strategies and objectives.

The Company uses various methods, including proprietary and third-party computer modeling processes, to continually monitor and analyze catastrophic events and the risks associated with them. These analyses and methods are used in making underwriting and reinsurance decisions as part of managing the Company's exposure to catastrophic events. In addition to catastrophe modeling and analysis, the Company also models and analyzes its exposure to other extreme events. The Company also utilizes proprietary and third-party computer modeling processes to evaluate capital adequacy. These analytical techniques are an integral component of the Company's ERM process and further support the Company's long-term financial strategies and objectives.

In addition to the day-to-day ERM activities within the Company's operations, key internal risk management functions include, among others, the Management and Operating Committees (comprised of the Company's Chief Executive Officer and the other most senior members of management), the Enterprise and Business Risk Committees of management, the Credit Committee, General Counsel, the Chief Ethics and Compliance Officer, the Corporate Actuarial group, the Corporate Audit group, the Corporate Controller group, the Accounting Policy group and the Enterprise Underwriting group, among others. A senior executive team comprised of the Executive Vice President of ERM, the Chief Risk Officer and the Chief Underwriting Officer oversees the ERM process. The mission of this team is to facilitate risk assessment and to collaborate in implementing effective risk management strategies throughout the Company. Another strategic ERM objective of this team includes working across the Company to enhance effective and realistic risk modeling capabilities as part of the Company's overall effort to understand and manage its portfolio of risks to be within its risk appetite. Board oversight of ERM is provided by the Risk Committee of the board of directors, which reviews the strategies, processes and controls pertaining to the Company's insurance operations and oversees the implementation, execution and performance of the Company's ERM program.

The Company's ERM efforts build upon the foundation of an effective internal control environment. ERM expands the internal control objectives of effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations, to fostering, leading and supporting an integrated, risk-based culture within the Company that focuses on value creation and preservation. However, the Company can provide only reasonable, not absolute, assurance that these objectives will be met. Further, the design of any risk management or control system must reflect the fact that there are resource constraints, and the benefits must be considered relative to their costs. As a result, the possibility of material financial loss remains in spite of the Company's significant ERM efforts. An investor should carefully consider the risks and all of the other information set forth in this annual report, including the discussions included in "Item 1A Risk Factors," "Item 7A Quantitative and Qualitative Disclosures About Market Risk," and "Item 8 Financial Statements and Supplementary Data" herein.

OTHER INFORMATION

Customer Concentration

In the opinion of the Company's management, no material part of the business of the Company and its subsidiaries is dependent upon a single customer or group of customers, the loss of any one of which would have a material adverse effect on the Company, and no one customer or group of affiliated customers accounts for 10% or more of the Company's consolidated revenues.

Employees

At December 31, 2015, the Company had approximately 30,900 employees. The Company believes that its employee relations are satisfactory. None of the Company's employees are subject to collective bargaining agreements.

Sources of Liquidity

For a discussion of the Company's sources of funds and maturities of the long-term debt of the Company, see "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources," and note 8 of notes to the consolidated financial statements herein.

Taxation

For a discussion of tax matters affecting the Company and its operations, see note 12 of notes to the consolidated financial statements herein.

Financial Information about Reportable Business Segments

For financial information regarding reportable business segments of the Company, see "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations," and note 2 of notes to the consolidated financial statements herein.

Intellectual Property

The Company relies on a combination of contractual rights and copyright, trademark, patent and trade secret laws to establish and protect its intellectual property. With respect to trademarks specifically, the Company has registrations in many countries, including the United States, for its material trademarks, including the "Travelers" name and the Company's iconic umbrella logo. The Company has the right to retain its material trademark rights in perpetuity, so long as it satisfies the use and registration requirements of all applicable countries. The Company regards its trademarks as highly valuable assets in marketing its products and services and vigorously seeks to protect its trademarks against infringement. See "Item 1A Risk Factors Intellectual property is important to our business, and we may be unable to protect and enforce our own intellectual property or we may be subject to claims for infringing on the intellectual property of others."

Table of Contents

Recent Transactions

For information regarding recent transactions of the Company, see "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations."

Company Website, Social Media and Availability of SEC Filings

The Company's Internet website is *www.travelers.com*. Information on the Company's website is not incorporated by reference herein and is not a part of this Form 10-K. The Company makes available free of charge on its website or provides a link on its website to the Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after those reports are electronically filed with, or furnished to, the SEC. To access these filings, go to the Company's website, then click on "SEC Filings" under the "For Investors" heading.

From time to time, the Company 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 posted on and accessible through the Company's website at *http://investor.travelers.com*, its Facebook page at *http://www.facebook.com/travelers* and its Twitter account (@Travelers) at *http://www.twitter.com/Travelers*. In addition, you may automatically receive email alerts and other information about the Company when you enroll your email address by visiting the "Email Notifications" section at *http://investor.travelers.com*.

Glossary of Selected Insurance Terms

Accident year	The annual calendar accounting period in which loss events occurred, regardless of when the losses are actually reported, booked or paid.
Adjusted unassigned surplus	Unassigned surplus as of the most recent statutory annual report reduced by twenty-five percent of that year's unrealized appreciation in value or revaluation of assets or unrealized profits on investments, as defined in that report.
Admitted insurer	A company licensed to transact insurance business within a state.
Agent	A licensed individual who sells and services insurance policies, receiving a commission from the insurer for selling the business and a fee for servicing it. An independent agent represents multiple insurance companies and searches the market for the best product for its client.
Annuity	A contract that pays a periodic benefit over the remaining life of a person (the annuitant), the lives of two or more persons or for a specified period of time.
Assigned risk pools	Reinsurance pools which cover risks for those unable to purchase insurance in the voluntary market. Possible reasons for this inability include the risk being too great or the profit being too small under the required insurance rate structure. The costs of the risks associated with these pools are charged back to insurance carriers in proportion to their direct writings.
Assumed reinsurance	Insurance risks acquired from a ceding company.

Table of Contents

Average value analysis	A conventional actuarial method used to estimate ultimate losses for a given cohort of claims such as an accident year/product line component. If the paid-to-date losses are then subtracted from the estimated ultimate losses, the result is an indication of the unpaid losses. The basic premise of the method is that average claim values are stable and predictable over time for a particular cohort of claims. The method is utilized most often where ultimate claim counts are known or reliably estimable fairly early after the start of an accident year and average values are expected to be fairly predictable from one year to the next. The method comes up with an estimate of ultimate claims counts by accident year cohort, and multiplies it by an estimate of average claim value by accident year cohort, with multiple methods used to estimate these average claim values.
Book value per share	Total common shareholders' equity divided by the number of common shares outstanding.
Bornhuetter-Ferguson method	A conventional actuarial method to estimate ultimate losses for a given cohort of claims such as an accident year/product line component. If the paid-to-date losses are then subtracted from the estimated ultimate losses, the result is an indication of the outstanding losses. The basic premise of the method is that the historical ratio of additional claim activity to earned premium for a given product line component/age-to-age period is stable and predictable. It implicitly assumes that the actual activity to date for past periods for that cohort is not a credible predictor of future activity for that cohort, or at least is not credible enough to override the "a priori" assumption as to future activity. It may be applied to either paid or case incurred claim data. It is used most often where the claim data is sparse and/or volatile and for relatively young cohorts with low volumes and/or data credibility. To illustrate, the method may assume that the ratio of additional paid losses from the 12 to 24 month period for an accident year is 10% of the original "a priori" expected losses for that accident year. The original "a priori" expected losses are typically based on the original loss ratio assumption for that accident year, with subsequent adjustment as facts develop. The ultimate losses equal actual activity to date plus the expected values for future periods.
Broker	One who negotiates contracts of insurance or reinsurance on behalf of an insured party, receiving a commission from the insurer or reinsurer for placement and other services rendered.

Table of Contents

Capacity	The percentage of statutory capital and surplus, or the dollar amount of exposure, that an insurer or reinsurer is willing or able to place at risk. Capacity may apply to a single risk, a program, a line of business or an entire book of business. Capacity may be constrained by legal restrictions, corporate restrictions or indirect restrictions.
Captive	A closely-held insurance company whose primary purpose is to provide insurance coverage to the company's owners or their affiliates.
Case-incurred development method	A conventional actuarial method to estimate ultimate losses for a given cohort of claims such as an accident year/product line component. If the paid-to-date losses are then subtracted from the estimated ultimate losses, the result is an indication of the unpaid losses. The approach is the same as that described in this glossary under the "paid loss development method," but based on the growth in cumulative case-incurred losses (i.e., the sum of claim-adjustor incurred estimates for claims in the cohort) rather than paid losses. The basic premise of the method is that cumulative case incurred losses for a given cohort of claims will grow in a stable, predictable pattern from year-to-year, based on the age of the cohort.
Case reserves	Claim department estimates of anticipated future payments to be made on each specific individual reported claim.
Casualty insurance	Insurance which is primarily concerned with the losses caused by injuries to third persons, i.e., not the insured, and the legal liability imposed on the insured resulting therefrom. It includes, but is not limited to, employers' liability, workers' compensation, public liability, automobile liability, personal liability and aviation liability insurance. It excludes certain types of losses that by law or custom are considered as being exclusively within the scope of other types of insurance, such as fire or marine.
Catastrophe	A severe loss 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, radiological, cyber-attacks, explosions and infrastructure failures. 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.
Catastrophe loss	Loss and directly identified loss adjustment expenses from catastrophes.

Table of Contents

Catastrophe reinsurance	A form of excess-of-loss reinsurance which, subject to a specified limit, indemnifies the ceding company for the amount of loss in excess of a specified retention with respect to an accumulation of losses and related reinsurance reinstatement premiums resulting from a catastrophic event. The actual reinsurance document is called a "catastrophe cover." These reinsurance contracts are typically designed to cover property insurance losses but can be written to cover casualty insurance losses such as from workers' compensation policies.
Cede; ceding company	When an insurer reinsures its liability with another insurer or a "cession," it "cedes" business and is referred to as the "ceding company."
Ceded reinsurance	Insurance risks transferred to another company as reinsurance. See "Reinsurance."
Claim	Request by an insured for indemnification by an insurance company for loss incurred from an insured peril.
Claim adjustment expenses	See "Loss adjustment expenses (LAE)."
Claims and claim adjustment expenses	See "Loss" and "Loss adjustment expenses (LAE)."
Claims and claim adjustment expense reserves	See "Loss reserves."
Cohort	A group of items or individuals that share a particular statistical or demographic characteristic. For example, all claims for a given product in a given market for a given accident year would represent a cohort of claims.
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 report 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 report is based on net *earned* premiums. The combined ratio is an indicator 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 a similarly titled measure may not be comparable to the Company's method of computing this ratio.

Table of Contents

Combined ratio excluding incremental impact of direct to consumer initiative	The combined ratio excluding incremental impact of direct to consumer initiative is the combined ratio adjusted to exclude the direct, variable impact of the Company's direct-to-consumer initiative in the Personal Insurance segment.
Commercial multi-peril policies	Refers to policies which cover both property and third-party liability exposures.
Commutation agreement	An agreement between a reinsurer and a ceding company whereby the reinsurer pays an agreed-upon amount in exchange for a complete discharge of all obligations, including future obligations, between the parties for reinsurance losses incurred.
Debt-to-total capital ratio	The ratio of debt to total capitalization.
Debt-to-total capital ratio excluding net unrealized gain (loss) on investments	The ratio of debt to total capitalization excluding the after-tax impact of net unrealized investment gains and losses.
Deductible	The amount of loss that an insured retains.
Deferred acquisition costs (DAC)	Incremental direct costs of acquired and renewal insurance contracts, consisting of commissions (other than contingent commissions) and premium-related taxes that are deferred and amortized to achieve a matching of revenues and expenses when reported in financial statements prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP).
Deficiency	With regard to reserves for a given liability, a deficiency exists when it is estimated or determined that the reserves are insufficient to pay the ultimate settlement value of the related liabilities. Where the deficiency is the result of an estimate, the estimated amount of deficiency (or even the finding of whether or not a deficiency exists) may change as new information becomes available.
Demand surge	Significant short-term increases in building material and labor costs due to a sharp increase in demand for those materials and services, commonly as a result of a large catastrophe resulting in significant widespread property damage.
Direct written premiums	The amounts charged by an insurer to insureds in exchange for coverages provided in accordance with the terms of an insurance contract. The amounts exclude the impact of all reinsurance premiums, either assumed or ceded.
Earned premiums or premiums earned	That portion of property casualty premiums written that applies to the expired portion of the policy term. Earned premiums are recognized as revenues under both SAP and GAAP.

Table of Contents

Excess and surplus lines insurance	Insurance for risks not covered by standard insurance due to the unique nature of the risk. Risks could be placed in excess and surplus lines markets due to any number of characteristics, such as loss experience, unique or unusual exposures, or insufficient experience in business. Excess and surplus lines are less regulated by the states, allowing greater flexibility to design specific insurance coverage and negotiate pricing based on the risks to be secured.
Excess liability	Additional casualty coverage above a layer of insurance exposures.
Excess-of-loss reinsurance	Reinsurance that indemnifies the reinsured against all or a specified portion of losses over a specified dollar amount or "retention."
Exposure	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.
Facultative reinsurance	The reinsurance of all or a portion of the insurance provided by a single policy. Each policy reinsured is separately negotiated.
Fair Access to Insurance Requirements (FAIR) Plan	A residual market mechanism which provides property insurance to those unable to obtain such insurance through the regular (voluntary) market. FAIR plans are set up on a state-by-state basis to cover only those risks in that state. For more information, see "residual market (involuntary business)."
Fidelity and surety programs	Fidelity insurance coverage protects an insured for loss due to embezzlement or misappropriation of funds by an employee. Surety is a three-party agreement in which the insurer agrees to pay a third party or make complete an obligation in response to the default, acts or omissions of an insured.
Gross written premiums	The direct and assumed contractually determined amounts charged to the policyholders for the effective period of the contract based on the terms and conditions of the insurance contract.
Ground-up analysis	A method to estimate ultimate claim costs for a given cohort of claims such as an accident year/product line component. It involves analyzing the exposure and claim activity at an individual insured level and then through the use of deterministic or stochastic scenarios and/or simulations, estimating the ultimate losses for those insureds. The total losses for the cohort are then the sum of the losses for each individual insured. In practice, the method is sometimes simplified by performing the individual insured analysis only for the larger insureds, with the costs for the smaller insureds estimated via sampling approaches (extrapolated to the rest of the smaller insured population) or aggregate approaches (using assumptions consistent with the ground-up larger insured analysis).
Guaranteed cost products	An insurance policy where the premiums charged will not be adjusted for actual loss experience during the covered period.

Table of Contents

Guaranty fund	A state-regulated mechanism that is financed by assessing insurers doing business in those states. Should insolvencies occur, these funds are available to meet some or all of the insolvent insurer's obligations to policyholders.
Holding company liquidity	Total cash, short-term invested assets and other readily marketable securities held by the holding company.
Incurred but not reported (IBNR) reserves	Reserves for estimated losses and LAE that have been incurred but not yet reported to the insurer. This includes amounts for unreported claims, development on known cases, and re-opened claims.
Inland marine	A broad type of insurance generally covering articles that may be transported from one place to another, as well as bridges, tunnels and other instrumentalities of transportation. It includes goods in transit, generally other than transoceanic, and may include policies for movable objects such as personal effects, personal property, jewelry, furs, fine art and others.
IRIS ratios	Financial ratios calculated by the NAIC to assist state insurance departments in monitoring the financial condition of insurance companies.
Large deductible policy	An insurance policy where the customer assumes at least $25,000 or more of each loss. Typically, the insurer is responsible for paying the entire loss under those policies and then seeks reimbursement from the insured for the deductible amount.
Lloyd's	An insurance marketplace based in London, England, where brokers, representing clients with insurable risks, deal with Lloyd's underwriters, who represent investors. The investors are grouped together into syndicates that provide capital to insure the risks.
Loss	An occurrence that is the basis for submission and/or payment of a claim. Losses may be covered, limited or excluded from coverage, depending on the terms of the policy.
Loss adjustment expenses (LAE)	The expenses of settling claims, including legal and other fees and the portion of general expenses allocated to claim settlement costs.
Loss and LAE ratio	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 report is calculated in the same manner as the SAP ratio. The loss and LAE ratio is an indicator of the Company's underwriting discipline and underwriting profitability. Other companies' method of computing a similarly titled measure may not be comparable to the Company's method of computing this ratio.

Table of Contents

Loss reserves	Liabilities established by insurers and reinsurers to reflect the estimated cost of claims incurred that the insurer or reinsurer will ultimately be required to pay in respect of insurance or reinsurance it has written. Reserves are established for losses and for LAE, and consist of case reserves and IBNR reserves. As the term is used in this document, "loss reserves" is meant to include reserves for both losses and LAE.
Loss reserve development	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. Loss reserve development may be related to prior year or current year development.
Losses incurred	The total losses sustained by an insurance company under a policy or policies, whether paid or unpaid. Incurred losses include a provision for IBNR.
National Association of Insurance Commissioners (NAIC)	An organization of the insurance commissioners or directors of all 50 states, the District of Columbia and the five U.S. territories organized to promote consistency of regulatory practice and statutory accounting standards throughout the United States.
Net written premiums	Direct written premiums plus assumed reinsurance premiums less premiums ceded to reinsurers.
New business volume	The amount of written premium related to new policyholders and additional products sold to existing policyholders.
Operating income (loss)	Net income (loss) excluding the after-tax impact of net realized investment gains (losses), discontinued operations and cumulative effect of changes in accounting principles when applicable.
Operating income (loss) per share	Operating income (loss) on a per share basis.
Operating return on equity	The ratio of operating income to average equity excluding net unrealized investment gains and losses and discontinued operations, net of tax.
Paid loss development method	A conventional actuarial method to estimate ultimate losses for a given cohort of claims such as an accident year/product line component. If the paid-to-date losses are then subtracted from the estimated ultimate losses, the result is an indication of the unpaid losses. The basic premise of the method is that cumulative paid losses for a given cohort of claims will grow in a stable, predictable pattern from year-to-year, based on the age of the cohort. These age-to-age growth factors are sometimes called "link ratios."

Table of Contents

	For example, if cumulative paid losses for a product line XYZ for accident year 2004 were \$100 as of December 31, 2004 (12 months after the start of that accident year), then grew to \$120 as of December 31, 2005 (24 months after the start), the link ratio for that accident year from 12 to 24 months would be 1.20. If the link ratio for other recent accident years from 12 to 24 months for that product line were also at or around 1.20, then the method would assume a similar result for the most recent accident year, i.e., that it too would have its cumulative paid losses grow 120% from the 12 month to 24 month valuation. This is repeated for each age-to-age period into the future until the age-to-age link ratios for future periods are assumed to be 1.0 (i.e., the age at which cumulative losses are assumed to have stopped growing). A given accident year's cumulative losses are then projected to ultimate by multiplying current cumulative losses by successive age-to-age link ratios up to that future age where growth is expected to end. For example, if growth is expected to end at 60 months, then the ultimate indication for an accident year with cumulative losses at 12 months equals those losses times a 12 to 24 month link ratio, times a 24 to 36 month link ratio, times a 36 to 48 month link ratio, times a 48 to 60 month link ratio. Advanced applications of the method include adjustments for changing conditions during the historical period and anticipated changes in the future.
Pool	An organization of insurers or reinsurers through which particular types of risks are underwritten with premiums, losses and expenses being shared in agreed-upon percentages.
Premiums	The amount charged during the year on policies and contracts issued, renewed or reinsured by an insurance company.
Probable maximum loss (PML)	The maximum amount of loss that the Company would be expected to incur on a policy if a loss were to occur, giving effect to collateral, reinsurance and other factors.
Property insurance	Insurance that provides coverage to a person or business with an insurable interest in tangible property for that person's or business's property loss, damage or loss of use.
Quota share reinsurance	Reinsurance wherein the insurer cedes an agreed-upon fixed percentage of liabilities, premiums and losses for each policy covered on a pro rata basis.
Rates	Amounts charged per unit of insurance.

Table of Contents

Redundancy	With regard to reserves for a given liability, a redundancy exists when it is estimated or determined that the reserves are greater than what will be needed to pay the ultimate settlement value of the related liabilities. Where the redundancy is the result of an estimate, the estimated amount of redundancy (or even the finding of whether or not a redundancy exists) may change as new information becomes available.
Reinstatement premiums	Additional premiums payable to reinsurers to restore coverage limits that have been exhausted as a result of reinsured losses under certain excess-of-loss reinsurance treaties.
Reinsurance	The practice whereby one insurer, called the reinsurer, in consideration of a premium paid to that insurer, agrees to indemnify another insurer, called the ceding company, for part or all of the liability of the ceding company under one or more policies or contracts of insurance which it has issued.
Reinsurance agreement	A contract specifying the terms of a reinsurance transaction.
Renewal premium change	The estimated change in average premium on policies that renew, including rate and exposure changes. Such statistics are subject to change based on a number of factors, including changes in estimates.
Renewal rate change	The estimated change in average premium on policies that renew, excluding exposure changes. Such statistics are subject to change based on a number of factors, including changes in estimates.
Reported claim development method	A conventional actuarial method to estimate ultimate claim counts for a given cohort of claims such as an accident year/product line component. If the reported-to-date counts are then subtracted from the estimated ultimate counts, the result is an indication of the IBNR counts. The approach is the same as that described in this glossary under the "paid loss development method", but based on the growth in cumulative claim counts rather than paid losses. The basic premise of the method is that cumulative claim counts for a given cohort of claims will grow in a stable, predictable pattern from year-to-year, based on the age of the cohort.
Residual market (involuntary business)	Insurance market which provides coverage for risks for those unable to purchase insurance in the voluntary market. Possible reasons for this inability include the risks being too great or the profit potential too small under the required insurance rate structure. Residual markets are frequently created by state legislation either because of lack of available coverage such as: property coverage in a windstorm prone area or protection of the accident victim as in the case of workers' compensation. The costs of the residual market are usually charged back to the direct insurance carriers in proportion to the carriers' voluntary market shares for the type of coverage involved.

Table of Contents

Retention	The amount of exposure a policyholder company retains on any one risk or group of risks. The term may apply to an insurance policy, where the policyholder is an individual, family or business, or a reinsurance policy, where the policyholder is an insurance company.
Retention rate	The percentage of prior period premiums (excluding renewal premium changes), accounts or policies available for renewal in the current period that were renewed. Such statistics are subject to change based on a number of factors, including changes in estimates.
Retrospective premiums	Premiums related to retrospectively rated policies.
Retrospective rating	A plan or method which permits adjustment of the final premium or commission on the basis of actual loss experience, subject to certain minimum and maximum limits.
Return on equity	The ratio of net income (loss) less preferred dividends to average shareholders' equity.
Risk-based capital (RBC)	A measure adopted by the NAIC and enacted by states for determining the minimum statutory policyholders' surplus requirements of insurers. Insurers having total adjusted capital less than that required by the RBC calculation will be subject to varying degrees of regulatory action depending on the level of capital inadequacy.
Risk retention group	An alternative form of insurance in which members of a similar profession or business band together to self insure their risks.
Runoff business	An operation which has been determined to be nonstrategic; includes non-renewals of in-force policies and a cessation of writing new business, where allowed by law.
Salvage	The amount of money an insurer recovers through the sale of property transferred to the insurer as a result of a loss payment.
S-curve method	A mathematical function which depicts an initial slow change, followed by a rapid change and then ending in a slow change again. This results in an "S" shaped line when depicted graphically. The actuarial application of these curves fit the reported data to date for a particular cohort of claims to an S-curve to project future activity for that cohort.
Second-injury fund	The employer of an injured, impaired worker is responsible only for the workers' compensation benefit for the most recent injury; the second-injury fund would cover the cost of any additional benefits for aggravation of a prior condition. The cost is shared by the insurance industry and self-insureds, funded through assessments to insurance companies and self-insureds based on either premiums or losses.
Self-insured retentions	That portion of the risk retained by a person for its own account.
Servicing carrier	An insurance company that provides, for a fee, various services including policy issuance, claims adjusting and customer service for insureds in a reinsurance pool.

Table of Contents

Statutory accounting practices (SAP)	The practices and procedures prescribed or permitted by domiciliary state insurance regulatory authorities in the United States for recording transactions and preparing financial statements. SAP generally reflect a modified going concern basis of accounting.
Statutory capital and surplus	The excess of an insurance company's admitted assets over its liabilities, including loss reserves, as determined in accordance with SAP. Admitted assets are assets of an insurer prescribed or permitted by a state to be recognized on the statutory balance sheet. Statutory capital and surplus is also referred to as "statutory surplus" or "policyholders' surplus."
Statutory net income	As determined under SAP, total revenues less total expenses and income taxes.
Structured settlements	Periodic payments to an injured person or survivor for a determined number of years or for life, typically in settlement of a claim under a liability policy, usually funded through the purchase of an annuity.
Subrogation	A principle of law incorporated in insurance policies, which enables an insurance company, after paying a claim under a policy, to recover the amount of the loss from another person or entity who is legally liable for it.
Third-party liability	A liability owed to a claimant (third party) who is not one of the two parties to the insurance contract. Insured liability claims are referred to as third-party claims.
Total capitalization	The sum of total shareholders' equity and debt.
Treaty reinsurance	The reinsurance of a specified type or category of risks defined in a reinsurance agreement (a "treaty") between a primary insurer or other reinsured and a reinsurer. Typically, in treaty reinsurance, the primary insurer or reinsured is obligated to offer and the reinsurer is obligated to accept a specified portion of all that type or category of risks originally written by the primary insurer or reinsured.
Umbrella coverage	A form of insurance protection against losses in excess of amounts covered by other liability insurance policies or amounts not covered by the usual liability policies.
Unassigned surplus	The undistributed and unappropriated amount of statutory capital and surplus.
Underlying combined ratio	The underlying combined ratio is the sum of the underlying loss and LAE ratio and the underlying underwriting expense ratio. The underlying combined ratio is an indicator of the Company's underwriting discipline and underwriting profitability for the current accident year.
Underlying loss and LAE ratio	The underlying loss and LAE ratio is the loss and LAE ratio, adjusted to exclude the impact of catastrophes and prior year reserve development. The underlying loss and LAE ratio is an indicator of the Company's underwriting discipline and underwriting profitability for the current accident year.

Table of Contents

Underlying underwriting expense ratio	The underlying underwriting expense ratio is the underwriting expense ratio adjusted to exclude the impact of catastrophes.
Underlying underwriting margin	Net earned premiums and fee income less claims and claim adjustment expenses (excluding catastrophe losses and prior year reserve development) and insurance-related expenses.
Underwriter	An employee of an insurance company who examines, accepts or rejects risks and classifies accepted risks in order to charge an appropriate premium for each accepted risk. The underwriter is expected to select business that will produce an average risk of loss no greater than that anticipated for the class of business.
Underwriting	The insurer's or reinsurer's process of reviewing applications for insurance coverage, and the decision as to whether to accept all or part of the coverage and determination of the applicable premiums; also refers to the acceptance of that coverage.
Underwriting expense 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 report 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 underwriting expense ratio is an indicator of the Company's efficiency in acquiring and servicing its business. Other companies' method of computing a similarly titled measure may not be comparable to the Company's method of computing this ratio.
Underwriting gain or loss	Net earned premiums and fee income less claims and claim adjustment expenses and insurance-related expenses.
Unearned premium	The portion of premiums written that is allocable to the unexpired portion of the policy term.
Voluntary market	The market in which a person seeking insurance obtains coverage without the assistance of residual market mechanisms.
Wholesale broker	An independent or exclusive agent that represents both admitted and nonadmitted insurers in market areas, which include standard, non-standard, specialty and excess and surplus lines of insurance. The wholesaler does not deal directly with the insurance consumer. The wholesaler deals with the retail agent or broker.
Workers' compensation	A system (established under state and federal laws) under which employers provide insurance for benefit payments to their employees for work-related injuries, deaths and diseases, regardless of fault.

Table of Contents

Item 1A. RISK FACTORS

You should carefully consider the following risks and all of the other information set forth in this report, including our consolidated financial statements and the notes thereto.

Catastrophe losses could materially and adversely affect our results of operations, our financial position and/or liquidity, and could adversely impact our ratings, our ability to raise capital and the availability and cost of reinsurance. Our property and casualty insurance operations expose us to claims arising out of catastrophes. 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, radiological, cyber-attacks, explosions and infrastructure failures. The geographic distribution of our business subjects us to catastrophe exposures in the United States and Canada, which include, but are not limited to: hurricanes from Maine through Texas; tornadoes throughout the Central, Mid-Atlantic and Southeastern regions of the United States; earthquakes in California, the New Madrid region and the Pacific Northwest region of North America; wildfires, particularly in western states and Canada; and terrorism in major cities in the United States. In addition to our operations in the United States and Canada, our international operations subject us to catastrophe exposures in the United Kingdom, the Republic of Ireland and Brazil as well as to a variety of world-wide catastrophe exposures through our Lloyd's operations.

The incidence and severity of catastrophes are inherently unpredictable, and it is possible that both the frequency and severity of natural and man-made catastrophic events could increase. Severe weather events over the last decade have underscored the unpredictability of future climate trends, and potentially changing climate conditions could add to the frequency and severity of natural disasters and create additional uncertainty as to future trends and exposures. For example, over the last decade, hurricane activity has impacted areas further inland than previously experienced by us, and demographic changes have resulted in larger populations in coastal areas which historically have been subject to severe storms, thus expanding our potential for losses from hurricanes. Additionally, both the frequency and severity of tornado and hail storms in the United States have been more volatile during the last decade. Moreover, we could experience more than one severe catastrophic event in any given period.

All of the catastrophe modeling tools that we use, or that we rely on from outside parties, to evaluate certain of our catastrophe exposures are based on assumptions and judgments that are subject to error and mis-estimation and may produce estimates that are materially different than actual results. In addition, compared to models for hurricanes, models for earthquakes are less reliable due to there being a more limited number of significant historical events to analyze, while models for tornadoes and hail storms are newer and may be even less reliable due to the highly random geographic nature and size of these events. As a result, models for earthquakes and tornado and hail storms may have even greater difficulty predicting risks and estimating losses. Further, changes in climate conditions could cause our underlying modeling data to be less predictive, thus limiting our ability to effectively evaluate and manage catastrophe risk. As compared to natural catastrophes, modeling for man-made catastrophes, such as terrorism, is even more difficult and less reliable, and for some events, such as cyber-attacks, currently there are no reliable modeling techniques. See "We may be adversely affected if our pricing and capital models provide materially different indications than actual results" below as well as "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Catastrophe Modeling" and " Changing Climate Conditions."

The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Increases in the value and geographic concentration of insured property and the effects of inflation could increase the severity of claims from

Table of Contents

catastrophic events in the future. For example, the specific geographic location impacted by tornadoes is inherently random and unpredictable and the specific location impacted by a tornado may or may not be highly populated and may or may not have a high concentration of our insured exposures.

States have from time to time passed legislation, and regulators have taken action, that have the effect of limiting the ability of insurers to manage catastrophe risk, such as legislation prohibiting insurers from reducing exposures or withdrawing from catastrophe-prone areas or mandating that insurers participate in residual markets. Participation in residual market mechanisms has resulted in, and may continue to result in, significant losses or assessments to insurers, including us, and, in certain states, those losses or assessments may not be commensurate with our direct catastrophe exposure in those states. If our competitors leave those states having residual market mechanisms, remaining insurers, including us, may be subject to significant increases in losses or assessments following a catastrophe. In addition, following catastrophes, there are sometimes legislative and administrative initiatives and court decisions that seek to expand insurance coverage for catastrophe claims beyond the original intent of the policies or seek to prevent the application of deductibles. Also, our ability to adjust terms, including deductible levels, or to increase pricing to the extent necessary to offset rising costs of catastrophes, particularly in the Personal Insurance segment, requires approval of regulatory authorities of certain states. Our ability or our willingness to manage our catastrophe exposure by raising prices, modifying underwriting terms or reducing exposure to certain geographies may be limited due to considerations of public policy, the evolving political environment and/or changes in the general economic climate. We also may choose to write business in catastrophe-prone areas that we might not otherwise write for strategic purposes, such as improving our access to other underwriting opportunities.

There are also factors that impact the estimation of ultimate costs for catastrophes. For example, the estimation of claims and claim adjustment expense reserves related to hurricanes can be affected by the inability to access portions of the impacted areas, the complexity of factors contributing to the losses, the legal and regulatory uncertainties and the nature of the information available to establish the claims and claim adjustment expense reserves. Complex factors include, but are not limited to: determining whether damage was caused by flooding versus wind; evaluating general liability and pollution exposures; estimating additional living expenses; the impact of demand surge; infrastructure disruption; fraud; the effect of mold damage; business interruption costs; and reinsurance collectability. In recent years, increased late reporting of weather-related losses by claimants, particularly losses from hail damage, has led to higher costs than we previously expected. The timing of a catastrophe's occurrence, such as at or near the end of a reporting period, can also affect the information available to us in estimating claims and claim adjustment expense reserves for that reporting period. The estimates related to catastrophes are adjusted in subsequent periods as actual claims emerge and additional information becomes available.

Exposure to catastrophe losses or actual losses resulting from a catastrophe could adversely affect our financial strength and claims-paying ratings and could impair our ability to raise capital on acceptable terms or at all. Also, as a result of our exposure to catastrophe losses or actual losses following a catastrophe, rating agencies may further increase capital requirements, which may require us to raise capital to maintain our ratings. A ratings downgrade could hurt our ability to compete effectively or attract new business. In addition, catastrophic events could cause us to exhaust our available reinsurance limits and could adversely impact the cost and availability of reinsurance. Such events can also impact the credit of our reinsurers. For a discussion of our catastrophe reinsurance coverage, see "Item 1 Business Reinsurance Catastrophe Reinsurance." Catastrophic events could also adversely impact the credit of the issuers of securities, such as states or municipalities, in which we have invested.

In addition, coverage in our reinsurance program for terrorism is limited. Although the Terrorism Risk Insurance Program provides benefits in the event of certain acts of terrorism, those benefits are subject to a deductible and other limitations. The program expired at the end of 2014 but was reauthorized, with some adjustments to its provisions, in January 2015 for six years through December 31, 2020. Under current provisions of this program, once our losses exceed 20% of our commercial property and casualty insurance premium for the preceding calendar year, the federal government will reimburse us for 84% of our losses attributable to certain acts of terrorism which exceed this deductible up to a total industry program cap of $100 billion. Our estimated deductible under the program is $2.43 billion for 2016. Over the remaining five-year life of the reauthorized program, the federal government reimbursement percentage will fall from 84% to 80%. In addition, because the interpretation of this law is untested, there is substantial uncertainty as to how it will be applied to specific circumstances. For example, application of the law to a specific event will depend upon whether the government has designated such event as a covered event. It is also possible that future legislation could change or eliminate the program, which could adversely affect our business by increasing our exposure to terrorism losses, or by lowering our business volume through efforts to avoid that exposure. For a further description of the Terrorism Risk Insurance Program, see note 5 of notes to the consolidated financial statements herein.

Because of the risks set forth above, catastrophes such as those caused by various natural events or man-made events such as a terrorist attack or other intentionally destructive acts, including those involving nuclear, biological, chemical, radiological or cyber events, could materially and adversely affect our results of operations, financial position and/or liquidity. Further, we may not have sufficient resources to respond to claims arising from a high frequency of high severity natural catastrophes and/or of man-made catastrophic events involving conventional means. In addition, while we seek to manage our exposure to man-made catastrophic events involving conventional means, we may not have sufficient resources to respond to claims arising out of one or more man-made catastrophic events involving "unconventional" means, such as nuclear, biological, chemical or radiological events.

During or following a period of financial market disruption or economic downturn, our business could be materially and adversely affected. Worldwide financial markets have, from time to time, experienced significant disruption. For example, during the financial crisis that started approximately eight years ago, the United States and many other economies experienced a prolonged economic downturn, resulting in heightened credit risk, reduced valuation of certain investments and decreased economic activity. Financial markets may again experience significant and prolonged disruption, including as a result of unanticipated events. In the years following the financial crisis, the federal government, particularly the Federal Reserve, has taken extraordinary steps to stabilize financial markets, encourage economic growth and keep interest rates low. During this time, the United States has experienced a slow rate of economic growth. Even if economic growth continues in the United States, or other regions in which we do business, it may be at a slow or slower rate for an extended period of time. While inflation has recently been limited and that trend may continue, it is possible that the steps taken by the federal government to stabilize financial markets and improve economic conditions could lead to an inflationary environment. Further, such steps may be ineffective and, in the case of the Federal Reserve, actual or anticipated efforts to continue to unwind some of such steps could disrupt financial markets and/or could adversely impact the value of our investment portfolio or general economic conditions.

Financial market disruption or economic downturns could be exacerbated by actual or potential economic and geopolitical instability in many regions of the world. This can impact our business even if we do not conduct business in the region subject to the instability. For example, due to globalization, instability in one region can spread to other regions where we do business. In Europe, uncertainty in recent years has included the increased potential for default by one or more European sovereign debt issuers, the potential partial or complete dissolution of the Eurozone and its common currency and the negative impact of such potential events on global financial institutions and capital markets generally. Actions or inactions of European governments may impact these actual or perceived risks. In the

Table of Contents

United States, future actions or inactions of the United States government can also impact economic conditions. For example, issues related to the U.S. Federal budget and taxes, implementation of the Affordable Care Act and the regulatory environment have added to the uncertainty regarding economic conditions generally.

If economic conditions deteriorate, or if financial markets experience significant disruption, it could materially adversely affect our results of operations, financial position and/or liquidity. Several of the risk factors discussed below identify risks that result from, or are exacerbated by, an economic slowdown or financial disruption. These include risks discussed below related to our investment portfolio, reinsurance arrangements, other credit exposures, our estimates of claims and claim adjustment expense reserves, emerging claim and coverage issues, the competitive environment, regulatory developments and the impact of rating agency actions. You should also refer to "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations," particularly the "Outlook" section.

Many of these risks could materialize, and our financial results could be negatively impacted, even after the end of an economic downturn or financial disruption. During or following an economic downturn, lower levels of economic activity could reduce (and historically have reduced) exposure changes at renewal. They also could adversely impact (and historically have adversely impacted) audit premium adjustments, policy endorsements and mid-term cancellations after policies are written, particularly in our business units within Business and International Insurance, which could adversely impact our written premiums. An inflationary environment (which may follow government efforts to stabilize the economy) may also, as we discuss below, adversely impact our loss costs and could adversely impact the valuation of our investment portfolio. Finally, as a result of financial market disruption, we may, as discussed below, face increased regulation.

If actual claims exceed our claims and claim adjustment expense reserves, or if changes in the estimated level of claims and claim adjustment expense reserves are necessary, our financial results could be materially and adversely affected. Claims and claim adjustment expense reserves do not represent an exact calculation of liability, but instead represent management estimates of what the ultimate settlement and administration of claims will cost, generally utilizing actuarial expertise and projection techniques, at a given accounting date.

The process of estimating claims and claim adjustment expense reserves involves a high degree of judgment and is subject to a number of variables. These variables can be affected by both internal and external events, such as: changes in claims handling procedures; adverse changes in loss cost trends, including inflationary pressures on medical costs and auto and home repair costs; economic conditions including general inflation; legal trends and legislative changes; and varying judgments and viewpoints of the individuals involved in the estimation process, among others. The impact of many of these items on ultimate costs for claims and claim adjustment expenses is difficult to estimate. Claims and claim adjustment expense reserve estimation difficulties also differ significantly by product line due to differences in claim complexity, the volume of claims, the potential severity of individual claims, the determination of occurrence date for a claim and reporting lags (the time between the occurrence of the policyholder event and when it is actually reported to the insurer).

As discussed above, it is possible that steps taken by the federal government to stabilize the economy could lead to higher inflation than we had anticipated, which could in turn lead to an increase in our loss costs. The impact of inflation on loss costs could be more pronounced for those lines of business that are considered "long tail," such as general liability, as they require a relatively long period of time to finalize and settle claims for a given accident year. In addition, a significant portion of claims costs, including those in "long tail" lines of business, consists of medical costs. Healthcare reform legislation and its implementation may significantly impact the availability, cost and allocation of payments for medical services, and it is possible that, as a result, inflationary pressures in medical costs may increase or claim frequency and/or severity may otherwise be adversely impacted. The estimation of claims and claim adjustment expense reserves may also be more difficult during times of adverse or uncertain economic conditions due to unexpected changes in behavior of claimants and policyholders, including an increase in fraudulent reporting of exposures and/or losses, reduced maintenance of insured properties, increased frequency of small claims or delays in the reporting of claims.

We continually refine our claims and claim adjustment expense reserve estimates in a regular, ongoing process as historical loss experience develops, additional claims are reported and settled, and the legal, regulatory and economic environment evolves. Business judgment is applied throughout the process, including the application of various individual experiences and expertise to multiple sets of data and analyses. Different experts may choose different assumptions when faced with material uncertainty, based on their individual backgrounds, professional experiences and areas of focus. Hence, such experts may at times produce estimates materially different from each other. This risk may be exacerbated in the context of an acquisition. Experts providing input to the various estimates and underlying assumptions include actuaries, underwriters, claim personnel and lawyers, as well as other members of management. Therefore, management may have to consider varying individual viewpoints as part of its estimation of claims and claim adjustment expense reserves.

We attempt to consider all significant facts and circumstances known at the time claims and claim adjustment expense reserves are established or reviewed. Due to the inherent uncertainty underlying claims and claim adjustment expense reserve estimates, the final resolution of the estimated liability for claims and claim adjustment expenses will likely be higher or lower than the related claims and claim adjustment expense reserves at the reporting date. Therefore, actual paid losses in the future may yield a materially different amount than is currently reserved.

Because of the uncertainties set forth above, additional liabilities resulting from one insured event, or an accumulation of insured events, may exceed the current related reserves. In addition, our estimate of claims and claim adjustment expenses may change. These additional liabilities or increases in estimates, or a range of either, cannot now be reasonably estimated and could materially and adversely affect our results of operations and/or our financial position.

For a discussion of claims and claim adjustment expense reserves by product line, including examples of common factors that can affect required reserves, see "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates Claims and Claim Adjustment Expense Reserves."

Our investment portfolio may suffer reduced returns or material realized or unrealized losses. Investment returns are an important part of our overall profitability. Fixed maturity and short-term investments comprised approximately 93% of the carrying value of our investment portfolio as of December 31, 2015. Changes in interest rates caused by inflation or other factors (inclusive of credit spreads) affect the carrying value of our fixed maturity investments and returns on our fixed maturity and short-term investments. A decline in interest rates reduces the returns available on short-term investments and new fixed maturity investments (including those purchased to re-invest maturities from the existing portfolio), thereby negatively impacting our net investment income, while rising interest rates reduce the market value of existing fixed maturity investments, thereby negatively impacting our book value. During 2015, the net pretax unrealized gain in our fixed income portfolio decreased from $2.67 billion to $1.78 billion as interest rates increased. It is possible that future increases in interest rates (inclusive of credit spreads) could result in a further decline in that unrealized gain position or in an unrealized loss, thereby adversely impacting our book value. Interest rates in recent years have been and remain at very low levels relative to historical experience, and it is possible that rates may remain at low levels for a prolonged period. The value of our fixed maturity and short-term investments is also subject to the risk that certain investments may default or become impaired due to a deterioration in the financial condition of one or more issuers of the securities held in our portfolio, or due to a

Table of Contents

deterioration in the financial condition of an insurer that guarantees an issuer's payments of such investments. Such defaults and impairments could reduce our net investment income and result in realized investment losses. During an economic downturn, fixed maturity and short-term investments could be subject to a higher risk of default. Rapid changes in commodity prices, such as a significant decline in oil prices, could also subject certain of our investments to a higher risk of default.

Our fixed maturity investment portfolio is invested, in substantial part, in obligations of states, municipalities and political subdivisions (collectively referred to as the municipal bond portfolio). Notwithstanding the relatively low historical rates of default on many of these obligations and notwithstanding that we typically seek to invest in high-credit-quality securities (including those with structural protections such as being secured by dedicated or pledged sources of revenue), our municipal bond portfolio could be subject to default or impairment. In particular:

- The prolonged economic downturn that began in 2008, and the limited economic recovery that has followed, has resulted in many states and local governments operating under deficits or projected deficits. The severity and duration of these deficits could have an adverse impact on the collectability and valuation of our municipal bond portfolio. These deficits may be exacerbated by the impact of unfunded pension plan obligations and other postretirement obligations or by declining municipal tax bases and revenues in times of financial stress.

- Some issuers may be unwilling to increase tax rates, or to reduce spending, to fund interest or principal payments on their municipal bonds, or may be unable to access the municipal bond market to fund such payments. The risk of widespread defaults may increase if some issuers voluntarily choose to default, instead of implementing difficult fiscal measures, and the actual or perceived consequences (such as reduced access to capital markets) are less severe than expected.

- The risk of widespread defaults may also increase if there are changes in legislation that permit states, municipalities and political subdivisions to file for bankruptcy protection where they were not permitted before. In addition, the collectability and valuation of municipal bonds may be adversely affected if there are judicial interpretations in a bankruptcy or other proceeding that lessen the value of structural protections. For example, debtors may challenge the effectiveness of structural protections thought to be provided by municipal securities backed by a dedicated source of revenue. The collectability and valuation may also be adversely affected if there are judicial interpretations in a bankruptcy or other proceeding that question the payment priority of municipal bonds.

A substantial portion of our fixed maturity portfolio will mature within the next few years. Approximately 34% of the fixed maturity portfolio is expected to mature over the next three years (this includes the early redemption of bonds, assuming interest rates (including credit spreads) do not rise significantly by applicable call dates). For a schedule of the contractual maturities of our fixed maturity portfolio by year for the next several years, see "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Investment Portfolio." Of that maturing portfolio, a substantial amount includes municipal bonds that have been pre-refunded with U.S. treasury securities. As a result, even if our investment strategy does not significantly change over the next few years, the overall yield on and composition of our portfolio could be meaningfully impacted by the types of investments available for reinvestment with the proceeds of matured bonds. For example, if yields remain low when we reinvest such proceeds, our future net investment income would be adversely affected. In addition, depending on the specific bonds available for purchase at the time of re-investment, the mix of specific issuers in our fixed-income and municipal bond portfolio will change.

Our portfolio has benefited from tax exemptions and certain other tax laws, including, but not limited to, those governing dividends-received deductions and tax credits (such as foreign tax credits). Changes in these laws could adversely impact the value of our investment portfolio. See "Changes in

U.S. tax laws or in the tax laws of other jurisdictions in which we operate could adversely impact us" below.

Our investment portfolio includes: residential mortgage-backed securities; collateralized mortgage obligations; pass-through securities and asset-backed securities collateralized by sub-prime mortgages; commercial mortgage-backed securities; and wholly-owned real estate and real estate partnerships, all of which could be adversely impacted by declines in real estate valuations and/or financial market disruption.

We also invest a portion of our assets in equity securities, private equity limited partnerships, hedge funds and real estate partnerships. From time to time, we may also invest in other types of non-fixed maturity investments, including investments with exposure to commodity price risk, such as oil. All of these asset classes are subject to greater volatility in their investment returns than fixed maturity investments. General economic conditions, changes in applicable tax laws and many other factors beyond our control can adversely affect the value of our non-fixed maturity investments and the realization of net investment income, and/or result in realized investment losses. As a result of these factors, we may realize reduced returns on these investments, incur losses on sales of these investments and be required to write down the value of these investments, which could reduce our net investment income and result in realized investment losses. From time to time, the Company enters into short positions in U.S. Treasury futures contracts to manage the duration of its fixed maturity portfolio, which can result in realized investment losses.

Our investment portfolio is also subject to increased valuation uncertainties when investment markets are illiquid. The valuation of investments is more subjective when markets are illiquid, thereby increasing the risk that the estimated fair value (i.e., the carrying amount) of the portion of the investment portfolio that is carried at fair value as reflected in our financial statements is not reflective of prices at which actual transactions could occur.

Given that economic and market conditions have been and could be highly uncertain, we may, depending on circumstances in the future, make changes to the mix of investments in our investment portfolio. These changes may impact the duration, volatility and risk of our investment portfolio.

Because of the risks set forth above, the value of our investment portfolio could decrease, we could experience reduced net investment income and we could experience realized and/or unrealized investment losses, which could materially and adversely affect our results of operations, financial position and/or liquidity.

Our business could be harmed because of our potential exposure to asbestos and environmental claims and related litigation. With regard to asbestos claims, we have received and continue to receive a significant number of asbestos claims from policyholders (including others seeking coverage under a policy). Factors underlying these claim filings include continued intensive advertising by lawyers seeking asbestos claimants and the continued focus by plaintiffs on defendants who were not traditionally primary targets of asbestos litigation. The focus on these defendants is primarily the result of the number of traditional asbestos defendants who have sought bankruptcy protection in previous years. The bankruptcy of many traditional defendants has also caused increased settlement demands against those policyholders who are not in bankruptcy but remain in the tort system. Currently, in many jurisdictions, those who allege very serious injury and who can present credible medical evidence of their injuries are receiving priority trial settings in the courts, while those who have not shown any credible disease manifestation are having their hearing dates delayed or placed on an inactive docket. This trend of prioritizing claims involving credible evidence of injuries, along with the focus on defendants who were not traditionally primary targets of asbestos litigation, has contributed to the claims and claim adjustment expense payments we experienced.

Table of Contents

We also continue to be involved in coverage litigation concerning a number of policyholders, some of whom have filed for bankruptcy, who in some instances have asserted that all or a portion of their asbestos-related claims are not subject to aggregate limits on coverage. In these instances, policyholders also may assert that each individual bodily injury claim should be treated as a separate occurrence under the policy. It is difficult to predict whether these policyholders will be successful on both issues. To the extent both issues are resolved in a policyholder's favor and our other defenses are not successful, our coverage obligations under the policies at issue would be materially increased and bounded only by the applicable per-occurrence limits and the number of asbestos bodily injury claims against the policyholders. Although we have seen a moderation in the overall risk associated with these lawsuits, it remains difficult to predict the ultimate cost of these claims.

Further, in addition to claims against policyholders, proceedings have been launched directly against insurers, including us, by individuals challenging insurers' conduct with respect to the handling of past asbestos claims and by individuals seeking damages arising from alleged asbestos-related bodily injuries. It is possible that the filing of other direct actions against insurers, including us, could be made in the future. It is difficult to predict the outcome of these proceedings, including whether the plaintiffs will be able to sustain these actions against insurers based on novel legal theories of liability.

With regard to environmental claims, we have received and continue to receive claims from policyholders who allege that they are liable for injury or damage arising out of their alleged disposition of toxic substances. Mostly, these claims arise under various legislative as well as regulatory efforts aimed at environmental remediation. For instance, the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), enacted in 1980 and later modified, enables private parties as well as federal and state governments to take action with respect to releases and threatened releases of hazardous substances. This federal statute permits the recovery of response costs from some liable parties and may require liable parties to undertake their own remedial action. Liability under CERCLA and similar state laws may be imposed on certain parties even if they did not cause the release or threatened release of hazardous substances and may be joint and several with other responsible parties.

The Company has been, and continues to be, involved in litigation involving insurance coverage issues pertaining to asbestos and environmental claims. The Company believes that some court decisions have interpreted the insurance coverage to be broader than the original intent of the insurers and policyholders. These decisions continue to be inconsistent and vary from jurisdiction to jurisdiction.

Uncertainties surrounding the final resolution of these asbestos and environmental claims continue, and it is difficult to estimate our ultimate liability for such claims and related litigation. As a result, these reserves are subject to revision as new information becomes available and as claims develop. The continuing uncertainties include, without limitation:

- the risks and lack of predictability inherent in complex litigation;
- a further increase in the cost to resolve, and/or the number of, asbestos and environmental claims beyond that which is anticipated;
- the emergence of a greater number of asbestos claims than anticipated as a result of extended life expectancies resulting from medical advances and lifestyle improvements;
- the role of any umbrella or excess policies we have issued;
- the resolution or adjudication of disputes concerning coverage for asbestos and environmental claims in a manner inconsistent with our previous assessment of these disputes;
- the number and outcome of direct actions against us;
- future developments pertaining to our ability to recover reinsurance for asbestos and environmental claims;

- any impact on asbestos defendants we insure due to the bankruptcy of other asbestos defendants;
- the unavailability of other insurance sources potentially available to policyholders, whether through exhaustion of policy limits or through the insolvency of other participating insurers; and
- uncertainties arising from the insolvency or bankruptcy of policyholders.

It is also not possible to predict changes in the legal, regulatory and legislative environment and their impact on the future development of asbestos and environmental claims. This environment could be affected by changes in applicable legislation and future court and regulatory decisions and interpretations, including the outcome of legal challenges to legislative and/or judicial reforms establishing medical criteria for the pursuit of asbestos claims. It is also difficult to predict the ultimate outcome of complex coverage disputes until settlement negotiations near completion and significant legal questions are resolved or, failing settlement, until the dispute is adjudicated. This is particularly the case with policyholders in bankruptcy where negotiations often involve a large number of claimants and other parties and require court approval to be effective.

While the ongoing evaluation of asbestos and environmental claims and associated liabilities considers the inconsistencies of court decisions as to coverage, plaintiffs' expanded theories of liability and the risks inherent in complex litigation and other uncertainties, it is possible that the outcome of the continued uncertainties regarding these claims could result in liability in future periods that differs from current reserves by an amount that could materially and adversely affect our results of operations. See the "Asbestos Claims and Litigation" and "Environmental Claims and Litigation" sections of "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations." Also see "Item 3 Legal Proceedings."

We are exposed to, and may face adverse developments involving, mass tort claims such as those relating to exposure to potentially harmful products or substances. In addition to asbestos and environmental claims, we face exposure to other types of mass tort claims, including claims related to exposure to potentially harmful products or substances, including lead paint, silica and welding rod fumes. Establishing claims and claim adjustment expense reserves for mass tort claims is subject to uncertainties because of many factors, including expanded theories of liability, disputes concerning medical causation with respect to certain diseases, geographical concentration of the lawsuits asserting the claims and the potential for a large rise in the total number of claims without underlying epidemiological developments suggesting an increase in disease rates. Moreover, evolving judicial interpretations regarding the application of various tort theories and defenses, including application of various theories of joint and several liabilities, as well as the application of insurance coverage to these claims, make it difficult to estimate our ultimate liability for such claims.

Because of the uncertainties set forth above, additional liabilities may arise for amounts in excess of the current related reserves. In addition, our estimate of claims and claim adjustment expenses may change, and such change could be material. These additional liabilities or increases in estimates, or a range of either, cannot now be reasonably estimated and could materially and adversely affect our results of operations.

The effects of emerging claim and coverage issues on our business are uncertain. As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claim and coverage may emerge. These issues may adversely affect our business, including by extending coverage beyond our underwriting intent, by increasing the number, size or types of claims or by mandating changes to our underwriting practices. Examples of emerging claims and coverage issues include, but are not limited to:

- judicial expansion of policy coverage and the impact of new or expanded theories of liability;

Table of Contents

- plaintiffs targeting property and casualty insurers, including us, in purported class action litigation relating to claims-handling and other practices;
- claims relating to construction defects, which often present complex coverage and damage valuation questions;
- claims under directors' & officers' insurance policies relating to losses from involvement in financial market activities, such as mortgage or financial product origination, distribution, structuring or servicing and foreclosure procedures; failed financial institutions; fraud; possible accounting irregularities; and corporate governance issues;
- claims related to data and network security breaches, information system failures or cyber-attacks, including cases where coverage was not intended to be provided;
- the assertion of "public nuisance" or similar theories of liability, pursuant to which plaintiffs seek to recover monies spent to administer public health care programs, abate hazards to public health and safety and/or recover damages purportedly attributable to a "public nuisance";
- claims related to liability or workers' compensation arising out of the spread of infectious disease or pandemic;
- claims relating to molestation by an employee or a volunteer of an insured;
- claims that link health issues to particular causes (for example, cumulative traumatic head injury from sports or other causes), resulting in liability or workers' compensation claims;
- claims alleging that one or more of our underwriting criteria have a disparate impact on persons belonging to a protected class in violation of the law, including the Fair Housing Act;
- claims arising out of techniques to expand access to oil and gas resources, such as hydraulic fracturing;
- claims arising out of the use of personal cars, homes or other property in commercial transactions, such as ride or home sharing;
- claims relating to unanticipated consequences of current or new technologies or business models or processes; and
- claims relating to potentially changing climate conditions, including higher frequency and severity of weather-related events.

In some instances, these emerging issues may not become apparent for some time after we have issued the affected insurance policies. As a result, the full extent of liability under our insurance policies may not be known for many years after the policies are issued.

In addition, the potential passage of new legislation designed to expand the right to sue, to remove limitations on recovery, to deem by statute the existence of a covered occurrence, to extend the statutes of limitations or otherwise to repeal or weaken tort reforms could have an adverse impact on our business.

The effects of these and other unforeseen emerging claim and coverage issues are extremely hard to predict and could harm our business and materially and adversely affect our results of operations.

The intense competition that we face could harm our ability to maintain or increase our business volumes and our profitability. The property and casualty insurance industry is highly competitive, and we believe that it will remain highly competitive for the foreseeable future. We compete with both domestic and foreign insurers which may offer products at prices and on terms that are not consistent with our economic standards in an effort to maintain or increase their business. The competitive environment in which we operate could also be impacted by current general economic conditions, which could reduce the volume of business available to us as well as to our competitors. In recent years, pension and hedge funds and other entities with substantial available capital and potentially lower return objectives have increasingly sought to participate in the property and casualty insurance and reinsurance businesses. Well-capitalized new entrants to the property and casualty insurance and reinsurance industries, existing competitors that receive substantial infusions of capital, as well as competitors that can take advantage of more favorable tax domiciles than the United States, may conduct business in ways that adversely impact our business volumes and profitability. Further, an expanded supply of reinsurance capital may lower costs for insurers that rely significantly on reinsurance and, as a consequence, those insurers may be able to price their products more competitively. In addition, the competitive environment could be impacted by changes in customer preferences, including customer demand for direct distribution channels, not only in personal lines (where we currently and may increasingly compete against direct writers), but also in commercial lines (where direct writers may become a more significant source of competition in the future, particularly in the small commercial market). Consolidation within the insurance industry also could alter the competitive environment in which we operate, which may impact our business volumes and/or the rates or terms of our products.

In Personal Insurance, the use of comparative rating technologies has impacted, and may continue to impact, our business as well as the industry as a whole. A substantial amount of the Company's Personal Insurance new business is written after an agent compares quotes using comparative rating technologies, a cost-efficient means of obtaining quotes from multiple companies. Because the use of this technology, whether by agents or directly by customers, facilitates the process of generating multiple quotes, the technology has increased price comparison on new business and, increasingly, on renewal business. It also has resulted in an increase in the level of quote activity and a lower percentage of quotes that result in new business from customers, and these trends may continue or accelerate. If we are not able to operate with a competitive cost structure or accurately estimate and price for claims and claim adjustment expenses, our underwriting margins could be adversely affected over time. Additionally, similar technology is starting to be used to access comparative rates for small commercial business and that trend may continue or accelerate.

Significant technology companies or other third parties have created, and may in the future create, digitally-enabled alternate distribution channels for personal or commercial business that may adversely impact our competitive position. These alternative distribution channels may compete with us directly by providing, or arranging to provide, insurance coverage themselves. See also "Disruptions to our relationships with our independent agents and brokers could adversely affect us" below.

Other technological changes may present competitive risks. For example, innovations, such as telematics and other usage-based methods of determining premiums, can impact product design and pricing and may become an increasingly important competitive factor. Other potential technological changes, such as driverless cars, assisted-driving technologies or technologies that facilitate ride or home sharing, could disrupt the demand for our products from current customers, create coverage issues or impact the frequency or severity of losses, and we may not be able to respond effectively. In addition, our competitive position could be impacted if we are unable to deploy, in a cost effective manner, technology that collects and analyzes a wide variety of data points (so-called "big data" analysis) to make underwriting or other decisions. See also "Our business success and profitability depend, in part, on effective information technology systems and on continuing to develop and implement improvements in technology" below.

Competitive dynamics may impact the success of efforts to improve our underwriting margins on our insurance products. These efforts could include seeking improved rates, as well as improved terms and conditions, and could also include other initiatives, such as reducing operating expenses and acquisition costs. These efforts may not be successful and/or may result in lower retention and new business levels and therefore lower business volumes. In addition, if our underwriting is not effective, further efforts to increase rates could also lead to "adverse selection", whereby accounts retained have higher losses, and are less profitable, than accounts lost. For more detail, see "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Outlook."

Table of Contents

In particular, in recent years, we have undertaken various actions to improve our underwriting margins in our Agency Automobile line of business. See "Item 1 Business Personal Insurance Competition" above for a description of some of these actions, including the offer of a new, more competitively-priced product. These factors include (i) changes in customer preferences and demand for direct distribution channels, (ii) utilization of comparative rating technologies by agents and/or technology companies and (iii) other technological changes, as described above. If our strategies to increase profitability in the Agency Automobile line of business do not continue to be effective, we may need to explore other actions or initiatives to improve our competitive position and profitability in this line of business.

Overall, our competitive position in our various businesses is based on many factors, including but not limited to our:

- ability to profitably price our business, retain existing customers and obtain new business;
- premiums charged, contract terms and conditions, products and services offered (including the ability to design customized programs);
- agent, broker and client relationships;
- ability to keep pace relative to our competitors with changes in technology and information systems;
- speed of claims payment;
- ability to provide our products and services in a cost effective manner;
- ability to adapt to changes in business models, customer preferences or regulation impacting the markets in which we operate;
- perceived overall financial strength and corresponding ratings assigned by independent rating agencies;
- reputation, experience and qualifications of employees;
- geographic scope of business; and
- local presence.

We may have difficulty in continuing to compete successfully on any of these bases in the future. If competition limits our ability to retain existing business or write new business at adequate rates or on appropriate terms, our results of operations could be materially and adversely affected. See "Competition" sections of the discussion on business segments in "Item 1 Business."

Disruptions to our relationships with our independent agents and brokers could adversely affect us. We market our insurance products primarily through independent agents and brokers. An important part of our business is written through less than a dozen such intermediaries. Further, there has been a trend of increased consolidation by agents and brokers, which could impact our relationships with, and fees paid to, some agents and brokers, and/or otherwise negatively impact the pricing or distribution of our products. Agents and brokers may increasingly compete with us to the extent that markets increasingly provide them with direct access to providers of capital seeking exposure to insurance risk. See also "The intense competition that we face could harm our ability to maintain or increase our business volumes and our profitability." In all of the foregoing situations, loss of all or a substantial portion of the business provided through such agents and brokers could materially and adversely affect our future business volume and results of operations.

We may also seek to develop new products or distribution channels, which could disrupt our relationships with our agents and brokers. In addition, agents and brokers may create alternate distribution channels for commercial business that may adversely impact product differentiation and pricing. Access to greater levels of data and increased utilization of technology by agents and brokers may also impact our relationship with them and our competitive position. Our efforts or their efforts with respect to new products or alternate distribution channels, as well as changes in the way agents and brokers utilize data and technology, could adversely impact our business relationship with independent agents and brokers who currently market our products, resulting in a lower volume and/or profitability of business generated from these sources.

We rely on internet applications for the marketing and sale of certain of our products, and we may increasingly rely on internet applications and toll-free numbers for distribution. In some instances, our agents and brokers are required to access separate business platforms to execute the sale of our personal insurance or commercial insurance products. Should internet disruptions occur, or frustration with our business platforms or distribution initiatives develop among our independent agents and brokers, any resulting loss of business could materially and adversely affect our future business volume and results of operations. See "If we experience difficulties with technology, data security and/or outsourcing relationships, our ability to conduct our business could be negatively impacted" below.

Customers in the past have brought claims against us for the actions of our agents. Even with proper controls in place, actual or alleged errors or inaccuracies by our agents could result in our involvement in disputes, litigation or regulatory actions related to actions taken or not taken by our agents.

We may not be able to collect all amounts due to us from reinsurers and reinsurance coverage may not be available to us in the future at commercially reasonable rates or at all. Although the reinsurer is liable to us to the extent of the ceded reinsurance, we remain liable as the direct insurer on all risks reinsured. As a result, ceded reinsurance arrangements do not eliminate our obligation to pay claims. Accordingly, we are subject to credit risk with respect to our ability to recover amounts due from reinsurers.

In the past, certain reinsurers have ceased writing business and entered into runoff. Some of our reinsurance claims may be disputed by the reinsurers, and we may ultimately receive partial or no payment. This is a particular risk in the case of claims that relate to insurance policies written many years ago, including those relating to asbestos and environmental claims. In addition, in a number of jurisdictions, particularly the European Union and the United Kingdom, a reinsurer is permitted to transfer a reinsurance arrangement to another reinsurer, which may be less creditworthy, without a counterparty's consent, provided that the transfer has been approved by the applicable regulatory and/or court authority.

Included in reinsurance recoverables are amounts related to certain structured settlements. Structured settlements are annuities purchased from various life insurance companies to settle certain personal physical injury claims, of which workers' compensation claims comprise a significant portion. In cases where we did not receive a release from the claimant, the structured settlement is included in reinsurance recoverables and the related claim cost is included in the liability for claims and claim adjustment expense reserves, as we retain the contingent liability to the claimant. If it is expected that the life insurance company is not able to pay, we would recognize an impairment of the related reinsurance recoverable if, and to the extent, the purchased annuities are not covered by state guaranty associations. In the event that the life insurance company fails to make the required annuity payments, we would be required to make such payments.

Many life insurance companies were negatively impacted by the financial markets disruption and the economic downturn beginning in 2008. A number of these companies, including certain of those with which we conduct business or to which we otherwise have credit exposure, were downgraded by various rating agencies during this time period. For a discussion of our top reinsurance groups by reinsurance recoverable and the top five groups by amount of structured settlements provided, see

Table of Contents

"Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Reinsurance Recoverables."

The availability and cost of reinsurance are subject to prevailing market conditions, both in terms of price and available capacity. The availability of reinsurance capacity can be impacted by general economic conditions and conditions in the reinsurance market, such as the occurrence of significant reinsured events. The availability and cost of reinsurance could affect our business volume and profitability. In addition, certain countries, particularly in Europe, recently have been pressuring the U.S. to reduce its regulatory requirements for U.S. ceding companies to obtain collateral from reinsurers located outside the United States which, if successful, could make it more difficult for U.S. companies, including us, to obtain sufficient collateral, if any, in such reinsurance arrangements.

Because of the risks set forth above, we may not be able to collect all amounts due to us from reinsurers, and reinsurance coverage may not be available to us in the future at commercially reasonable rates or at all, and/or life insurance companies may fail to make required annuity payments, and thus our results of operations could be materially and adversely affected.

We are exposed to credit risk in certain of our business and investment operations including reinsurance or structured settlements. In addition to exposure to credit risk related to our investment portfolio and reinsurance recoverables (discussed above), we are exposed to credit risk in several other areas of our business operations, including credit risk relating to policyholders, independent agents and brokers.

We are exposed to credit risk in our surety insurance operations, where we guarantee to a third party that our customer will satisfy certain performance obligations (e.g., a construction contract) or certain financial obligations, including exposure to large customers who may have obligations to multiple third parties. If our customer defaults, we may suffer losses and not be reimbursed by that customer. In addition, it is customary practice in the surety business for multiple insurers to participate as co-sureties on large surety bonds. Under these arrangements, the co-surety obligations are typically joint and several, in which case we are also exposed to credit risk with respect to our co-sureties.

In addition, a portion of our business is written with large deductible insurance policies. Under casualty insurance contracts with deductible features, we are obligated to pay the claimant the full amount of the claim. We are subsequently reimbursed by the contractholder for the deductible amount, and, as a result, we are exposed to credit risk to the policyholder. Moreover, certain policyholders purchase retrospectively rated workers' compensation policies (i.e., policies in which premiums are adjusted after the policy period based on the actual loss experience of the policyholder during the policy period). Retrospectively rated policies expose us to additional credit risk to the extent that the adjusted premium is greater than the original premium.

Our efforts to mitigate the credit risk that we have to our insureds may not be successful. To reduce such credit risk, we require certain insureds to post collateral for some or all of these obligations, often in the form of pledged securities such as money market funds or letters of credit provided by banks, surety bonds or cash. In cases where we receive pledged securities and the insureds are unable to honor their obligations, we may be exposed to credit risk on the securities pledged and/or the risk that our access to that collateral may be stayed during an insured's bankruptcy. In cases where we receive letters of credit from banks and the insureds are unable to honor their obligations, we are exposed to the credit risk of the banks that issued the letters of credit.

In accordance with industry practice, when policyholders purchase insurance policies from us through independent agents and brokers, the premiums relating to those policies are often paid to the agents and brokers for payment to us. In most jurisdictions, the premiums will be deemed to have been paid to us whether or not they are actually received by us. Consequently, we assume a degree of credit risk associated with amounts due from independent agents and brokers.

Table of Contents

To a large degree, the credit risk we face is a function of the economy; accordingly, we face a greater risk in an economic downturn. While we attempt to manage the risks discussed above through underwriting and investment guidelines, collateral requirements and other oversight mechanisms, our efforts may not be successful. For example, collateral obtained may subsequently have little or no value. Further, the amount of collateral protection we have been able to obtain on the business we write in certain markets has decreased, and may continue to decrease, as a result of competition. As a result, our exposure to the above credit risks could materially and adversely affect our results of operations.

Within the United States, our businesses are heavily regulated by the states in which we conduct business, including licensing and supervision, and changes in regulation may reduce our profitability and limit our growth. These regulatory systems are generally designed to protect the interests of policyholders, and not necessarily the interests of insurers, their shareholders and other investors. For example, to protect policyholders whose insurance company becomes financially insolvent, guaranty funds have been established in all 50 states to pay the covered claims of policyholders in the event of an insolvency of an insurer, subject to applicable state limits. The funding of guaranty funds is provided through assessments levied against remaining insurers in the marketplace. As a result, the insolvency of one or more insurance companies could result in additional assessments levied against us. In addition, several states restrict the timing and/or the ability of an insurer to discontinue writing a line of business or to cancel or non-renew certain policies.

These regulatory systems also address authorization for lines of business, statutory capital and surplus requirements, limitations on the types and amounts of certain investments, underwriting limitations, transactions with affiliates, dividend limitations, changes in control, premium rates and a variety of other financial and non-financial components of an insurer's business.

In recent years, the state insurance regulatory framework has come under increased scrutiny, and some state legislatures have considered or enacted laws that may alter or increase state authority to regulate insurance companies and insurance holding companies. Further, the NAIC and state insurance regulators continually re-examine existing laws and regulations, specifically focusing on modifications to holding company regulations, interpretations of existing laws and the development of new laws and regulations.

Included in these changes is an amendment to insurance holding company regulations that require insurers who are part of a holding company system to file an enterprise risk report to provide the lead insurance regulator with a summary of the company's enterprise risk management (ERM) framework including the material risks within the insurance holding company system that could pose risk to the insurance entities within the holding company system. Insurers having premium volume above certain thresholds, including the Company, are also required to perform at least annually a self-assessment of their current and future risks, including their likely future solvency position (known as an own risk and solvency assessment or ORSA) and file a confidential report with the insurer's lead insurance regulator. The ORSA concept has two primary goals, which are to foster an effective level of ERM at all insurers within the holding company system, and to provide a group wide perspective on risk and capital as a supplement to the legal entity view. ORSA is now included in the International Association of Insurance Supervisors (IAIS) standards and is in various stages of implementation in the United States, Europe, Canada, and other jurisdictions. It is possible that, as a result of ORSA and the manner in which it may be used by insurance regulators, our states of domicile or other regulatory bodies may require changes in our ERM process (e.g., prescribe the use of specific models or the application of certain assumptions in the Company's models) that have the effect of limiting our ability to write certain risks, limit our risk appetite to write additional business or reduce our capital management flexibility. See "Enterprise Risk Management" herein for further discussion of the Company's ERM.

The NAIC and state insurance regulators, as well as the Federal Reserve and Federal Insurance Office, are currently working with the IAIS to develop a global common framework (ComFrame) for

Table of Contents

the supervision of internationally active insurance groups (IAIGs). If adopted, ComFrame would require the designation of a group-wide supervisor (regulator) for each IAIG and would impose a group capital requirement that would be applied to an IAIG in addition to the current legal entity capital requirements imposed by state insurance regulators. In response to ComFrame, the NAIC is developing a model law that would allow state insurance regulators in the U.S. to be designated as group-wide supervisors for U.S. based IAIGs. Additionally, the NAIC is developing a group capital standard that would be applied to U.S. based insurance groups. These regulatory developments could increase the amount of capital that the Company is required to have and could result in the Company being subject to increased regulatory requirements.

In a time of financial uncertainty or a prolonged economic downturn or otherwise, regulators may choose to adopt more restrictive insurance laws and regulations. For example, insurance regulators may choose to restrict the ability of insurance subsidiaries to make payments to their parent companies or reject rate increases due to the economic environment. The state insurance regulators may also increase the statutory capital and surplus requirements for our insurance subsidiaries. In addition, state tax laws that specifically impact the insurance industry, such as premium taxes or other taxes, may be enacted or changed by states to raise revenues.

State laws or regulations that are adopted or amended may be more restrictive than current laws or regulations and may result in lower revenues and/or higher costs of compliance and thus could materially and adversely affect our results of operations and limit our growth.

Changes in federal regulation could impose significant burdens on us and otherwise adversely impact our results. While the U.S. federal government has not historically regulated the insurance business, in 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) established a Federal Insurance Office (FIO) within the U.S. Department of the Treasury. The FIO has limited regulatory authority and is empowered to gather data and information regarding the insurance industry and insurers. In December 2013, the FIO released a report recommending ways to modernize and improve the system of insurance regulation in the United States. While the report did not recommend full federal regulation of insurance, it did suggest an expanded federal role in some circumstances. In addition, the report suggested that Congress should consider direct federal involvement to fill regulatory gaps identified in the report, should those gaps persist, for example, by considering either establishing a federal coordinating body or a direct regulator of select aspects of the industry, such as large complex institutions or institutions that seek a federal charter, if a law is passed to allow a federal charter. It is not clear as to the extent, if any, the report will lead to regulatory changes or how any such changes would impact the Company.

The Dodd-Frank Act also gives the Federal Reserve supervisory authority over a number of nonbank financial services holding companies, including insurance companies, if they are designated by a two-thirds vote of a Financial Stability Oversight Council (the FSOC) as "systemically important financial institutions" (SIFI) or own a bank or thrift. The FSOC, chaired by the Secretary of the Treasury, is a group of federal financial regulators, a state insurance regulator and an independent insurance expert. The FSOC considers companies for designation as a SIFI annually and finalized its first set of SIFI designations in 2013. The Company, based upon the FSOC's rules and interpretive guidance, has not been designated as a SIFI. Nonetheless, it is possible that the Council may change its rules or interpretations in the future and conclude that we are a SIFI. If we were designated as a SIFI, the Federal Reserve's supervisory authority could include the ability to impose heightened financial regulation and could impact requirements regarding our capital, liquidity and leverage as well as our business and investment conduct. As a result of the foregoing, the Dodd-Frank Act, or other additional federal regulation that is adopted in the future, could impose significant burdens on us, including impacting the ways in which we conduct our business, increasing compliance costs and duplicating state regulation, and could result in a competitive disadvantage, particularly relative to other insurers that may not be subject to the same level of regulation. Changes in the U.S. regulatory framework could impact the overall competitive environment by imposing additional burdens on us and allowing other competitors not subject to these same burdens to enter or expand their insurance businesses.

Even if we are not subject to additional regulation by the federal government, significant financial sector regulatory reform, including the Dodd-Frank Act, could have a significant impact on us. For example, regulatory reform could have an unexpected impact on our rights as a creditor or on our competitive position. In particular, the Dodd-Frank Act authorizes assessments to pay for the resolution of systemically important financial institutions that have become insolvent. We (as a financial company with more than $50 billion in assets) could be assessed, and, although any such assessment is required to be risk weighted (i.e., riskier firms pay more), such costs could be material to us and are not currently estimable.

Other potential changes in U.S. federal legislation, regulation and/or administrative policies, including the potential repeal of the McCarran-Ferguson Act (which exempts insurance from most federal regulation) and potential changes in federal taxation, could also significantly harm the insurance industry, including us.

A downgrade in our claims-paying and financial strength ratings could adversely impact our business volumes, adversely impact our ability to access the capital markets and increase our borrowing costs. Claims-paying and financial strength ratings are important to an insurer's competitive position. Rating agencies periodically review insurers' ratings and change their ratings criteria; therefore, our current ratings may not be maintained in the future. A downgrade in one or more of our ratings could negatively impact our business volumes because demand for certain of our products may be reduced, particularly because many customers may require that we maintain minimum ratings to enter into, maintain or renew business with us. Additionally, we may find it more difficult to access the capital markets and we may incur higher borrowing costs. If significant losses, including, but not limited to, those resulting from one or more major catastrophes, or significant reserve additions or significant investment losses were to cause our capital position to deteriorate significantly, or if one or more rating agencies substantially increase their capital requirements, we may need to raise equity capital in the future (which we may not be able to do at a reasonable cost or at all, especially at a time of financial market disruption) in order to maintain our ratings or limit the extent of a downgrade. A continued trend of more frequent and severe weather-related catastrophes or a prolonged financial market disruption or economic downturn may lead rating agencies to substantially increase their capital requirements. See also "During or following a period of financial market disruption or economic downturn, our business could be materially and adversely affected." For further discussion about our ratings, see "Item 1 Business Ratings."

The inability of our insurance subsidiaries to pay dividends to our holding company in sufficient amounts would harm our ability to meet our obligations, pay future shareholder dividends or make future share repurchases. Our holding company relies on dividends from our U.S. insurance subsidiaries to meet our obligations for payment of interest and principal on outstanding debt, to pay dividends to shareholders, to make contributions to our qualified domestic pension plan, to pay other corporate expenses and to make share repurchases. The ability of our insurance subsidiaries to pay dividends to our holding company in the future will depend on their statutory capital and surplus, earnings and regulatory restrictions.

We are subject to state insurance regulation as an insurance holding company system. Our U.S. insurance subsidiaries are subject to various regulatory restrictions that limit the maximum amount of dividends available to be paid to their parent without prior approval of insurance regulatory authorities. In a time of prolonged economic downturn or otherwise, insurance regulators may choose to further restrict the ability of insurance subsidiaries to make payments to their parent companies. The ability of our insurance subsidiaries to pay dividends to our holding company is also restricted by regulations that set standards of solvency that must be met and maintained.

Table of Contents

The inability of our insurance subsidiaries to pay dividends to our holding company in an amount sufficient to meet our debt service obligations and other cash requirements could harm our ability to meet our obligations, to pay future shareholder dividends and to make share repurchases.

Our efforts to develop new products or expand in targeted markets may not be successful and may create enhanced risks. A number of our recent and planned business initiatives involve developing new products or expanding existing products in targeted markets. This includes the following efforts, from time to time, to protect or grow market share:

- We may develop products that insure risks we have not previously insured, contain new coverage or coverage terms or contain different commission terms.
- We may refine our underwriting processes.
- We may seek to expand distribution channels.
- We may focus on geographic markets within or outside of the United States where we have had relatively little or no market share.

We may not be successful in introducing new products or expanding in targeted markets and, even if we are successful, these efforts may create enhanced risks. Among other risks:

- Demand for new products or in new markets may not meet our expectations.
- To the extent we are able to market new products or expand in new markets, our risk exposures may change, and the data and models we use to manage such exposures may not be as sophisticated or effective as those we use in existing markets or with existing products. This, in turn, could lead to losses in excess of our expectations.
- Models underlying automated underwriting and pricing decisions may not be effective.
- Efforts to develop new products or markets have the potential to create or increase distribution channel conflict, such as described above under " Disruptions to our relationships with our independent agents and brokers could adversely affect us."
- In connection with the conversion of existing policyholders to a new product, some policyholders' pricing may increase, while the pricing for other policyholders may decrease, the net impact of which could negatively impact retention and profit margins.
- To develop new products or markets, we may need to make substantial capital and operating expenditures, which may also negatively impact results in the near term.

If our efforts to develop new products or expand in targeted markets are not successful, our results of operations could be materially and adversely affected.

We may be adversely affected if our pricing and capital models provide materially different indications than actual results. The profitability of our property and casualty business substantially depends on the extent to which our actual claims experience is consistent with the assumptions we use in pricing our policies. We utilize proprietary and third party models to help us price business in a manner that is intended to be consistent, over time, with actual results and return objectives. We incorporate the Company's historical loss experience, external industry data and economic indices into our modeling processes, and we use various methods, including predictive modeling, forecasting and sophisticated simulation modeling techniques, to analyze loss trends and the risks associated with our assets and liabilities. We also use these modeling processes, analyses and methods in making underwriting, pricing and reinsurance decisions as part of managing our exposure to catastrophes and other extreme adverse events. These modeling processes incorporate numerous assumptions and forecasts about the future level and variability of: interest rates, inflation, capital requirements, and frequency and severity of losses, among others, that are difficult to make and may differ materially from actual results.

Whether we use a proprietary or third party model, future experience may be materially different from past and current experience incorporated in a model's forecasts or simulations. This includes the likelihood of events occurring or continuing or the correlation among events. Third party models may provide substantially different indications than what our proprietary modeling processes provide. As a result, third party model estimates of losses can be, and often have been, materially different for similar events in comparison to our proprietary estimates. The differences between third party model estimates and our proprietary estimates are driven by the use of different data sets as well as different assumptions and forecasts regarding the frequency and severity of events and claims arising from the events.

If we fail to appropriately price the risks we insure, or fail to change our pricing model to appropriately reflect our current experience, or if our claims experience is more frequent or severe than our underlying risk assumptions, our profit margins may be negatively affected. If we underestimate the frequency and/or severity of extreme adverse events occurring, our financial condition may be adversely affected. If we overestimate the risks we are exposed to, we may overprice our products, and new business growth and retention of our existing business may be adversely affected. As we expand into different markets and geographies, we will write more policies in markets and geographical areas where we have less data specific to these new markets and geographies, and, accordingly, we may be more susceptible to error in our models and strategy. See "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Catastrophe Modeling."

Our business success and profitability depend, in part, on effective information technology systems and on continuing to develop and implement improvements in technology. We depend in large part on our technology systems for conducting business and processing claims, as well as for providing the data and analytics we utilize to manage our business, and thus our business success is dependent on maintaining the effectiveness of existing technology systems and on continuing to develop and enhance technology systems that support our business processes and strategic initiatives in a cost and resource efficient manner. Some system development projects are long-term in nature, may negatively impact our expense ratios as we invest in the projects and may cost more than we expect to complete. In addition, system development projects may not deliver the benefits or perform as expected, or may be replaced or become obsolete more quickly than expected, which could result in operational difficulties, additional costs or accelerated recognition of expenses. If we do not effectively and efficiently manage and upgrade our technology portfolio, including with respect to the technology portfolio of our recently acquired businesses, or if the costs of doing so are higher than we expect, our ability to provide competitive services to new and existing customers in a cost effective manner and our ability to implement our strategic initiatives could be adversely impacted.

If we experience difficulties with technology, data and network security, outsourcing relationships, or cloud-based technology, our ability to conduct our business could be negatively impacted. While technology can streamline many business processes and ultimately reduce the cost of operations, technology initiatives present significant risks. Our business is highly dependent upon our employees' ability to perform, in an efficient and uninterrupted fashion, necessary business functions. A shut-down of, or inability to access, one or more of our facilities (including our primary data processing facility); a power outage; or a failure of one or more of our information technology, telecommunications or other systems could significantly impair our ability to perform such functions on a timely basis, particularly if such an interruption lasts for an extended period of time. In the event of a computer virus or disaster such as a natural catastrophe, terrorist attack or industrial accident, our systems could be inaccessible for an extended period of time. In addition, because our information technology and telecommunications systems increasingly interface with and depend on third-party systems, including cloud-based, we could experience service denials or failures of controls if demand for our service exceeds capacity or a third-party system fails or experiences an interruption. Business interruptions and failures of controls could also result if our internal systems do not interface with each other as intended, including as it relates to recently acquired businesses. Business continuity can also be disrupted by an event, such as a pandemic, that renders large numbers of a workforce unable to work as needed, particularly at critical locations; for example, our largest location employs about 20% of our employees. If our business continuity plans did not sufficiently address a business interruption, system failure or service denial, this could result in a deterioration of our ability to write and process new and renewal business, provide customer service, pay claims in a timely manner or perform other necessary business functions.

Our operations rely on the reliable and secure processing, storage and transmission of confidential and other information in our computer systems and networks. Computer viruses, hackers (including individuals, organizations or rogue states) and employee or vendor misconduct, and other external hazards, could expose our data systems to security breaches, cyber-attacks or other disruptions. In addition, we routinely transmit and receive personal, confidential and proprietary information by e-mail and other electronic means. While we attempt to develop secure transmission capabilities with third-party vendors and others with whom we do business, we may be unable to put in place secure capabilities with all of such vendors and third parties and, in addition, these third parties may not have appropriate controls in place to protect the confidentiality of the information.

Like other global companies, our computer systems are regularly subject to and will continue to be the target of computer viruses, malware or other malicious codes, unauthorized access, cyber-attacks or other computer-related penetrations. While we have experienced threats to our data and systems, to date, we are not aware that we have experienced a material cyber-security breach. However, over time, the sophistication of these threats continues to increase. Our administrative and technical controls as well as other preventative actions we take to reduce the risk of cyber incidents and protect our information may be insufficient to detect or prevent unauthorized access, other physical and electronic break-ins, cyber-attacks or other security breaches to our computer systems or those of third parties with whom we do business. In addition, new technology that could result in greater operational efficiency may further expose our computer systems to the risk of cyber-attacks.

We have increasingly outsourced certain technology and business process functions to third parties and may continue to do so in the future. If we do not effectively develop, implement and monitor our outsourcing relationships, third party providers do not perform as anticipated, we experience technological or other problems with a transition, or outsourcing relationships relevant to our business process functions are terminated, we may not realize expected productivity improvements or cost efficiencies and may experience operational difficulties, increased costs and a loss of business. Our outsourcing of certain technology and business process functions to third parties may expose us to increased risk related to data security or service disruptions, which could result in monetary and reputational damages or harm to our competitive position. In addition to risks caused by third party providers, our ability to receive services from third party providers outside of the United States might be impacted by cultural differences, political instability, unanticipated regulatory requirements or public policy inside or outside of the United States.

The increased risks identified above could expose us to data loss, disruption of service, monetary and reputational damages, competitive disadvantage and significant increases in compliance costs and costs to improve the security and resiliency of our computer systems. The compromise of personal, confidential or proprietary information could also subject us to legal liability or regulatory action under evolving cyber-security, data protection and privacy laws and regulations enacted by the U.S. federal and state governments, Canada, the European Union or other jurisdictions or by various regulatory organizations or exchanges. As a result, our ability to conduct our business and our results of operations might be materially and adversely affected.

We are also subject to a number of additional risks associated with our business outside the United States. We conduct business outside the United States primarily in Canada, the United Kingdom and the Republic of Ireland. In addition, we conduct business in Brazil, primarily through a joint venture, and we have an indirect interest in a joint venture in Colombia. We may also explore opportunities in other countries, including other Latin American countries and other emerging markets such as India.

In conducting business outside of the United States, we are also subject to a number of additional risks, particularly in emerging economies. These risks include restrictions such as price controls, capital controls, currency exchange limits, ownership limits and other restrictive or anti-competitive governmental actions or requirements, which could have an adverse effect on our business and our reputation. Following the completion of our acquisition of Dominion, a larger portion of our premiums from outside of the United States is generated in Canada, a substantial portion of which consists of automobile premiums from the province of Ontario, which is a highly regulated market. Our business activities outside the United States may also subject us to currency risk and, in some markets, it may be difficult to effectively hedge that risk, or we may choose not to hedge that risk. In addition, in some markets, we may invest as part of a joint venture with a local counterparty. Because our governance rights may be limited, we may not have control over the ability of the joint venture to make certain decisions and/or mitigate risks it faces, and significant disagreements with a joint venture counterparty may adversely impact our investment. Our business activities outside the United States could subject us to increased volatility in earnings resulting from the need to recognize and subsequently revise a valuation allowance associated with income taxes if we became unable to fully utilize any deferred tax assets, including loss carry-forwards from those foreign operations. Also, political instability, particularly in emerging economies, could result in financial market disruption or an economic downturn in such regions.

Our business activities outside the United States also subject us to additional domestic and foreign laws and regulations, including the Foreign Corrupt Practices Act and similar laws in other countries that prohibit the making of improper payments to foreign officials. Although we have policies and controls in place that are designed to ensure compliance with these laws, if those controls are ineffective and an employee or intermediary fails to comply with applicable laws and regulations, we could suffer civil and criminal penalties and our business and our reputation could be adversely affected. Some countries, particularly emerging economies, have laws and regulations that lack clarity and, even with local expertise and effective controls, it can be difficult to determine the exact requirements of, and potential liability under, the local laws. In some jurisdictions, including Brazil, parties to a joint venture may, in some circumstances, have liability for some obligations of the venture, and that liability may extend beyond the capital invested. Failure to comply with local laws in a particular market may result in substantial liability and could have a significant and negative effect not only on our business in that market but also on our reputation generally.

In addition, competition for skilled employees in developing markets and other non-U.S. locations may be intense. If we are not able to hire, integrate, motivate and retain a sufficient number of employees with the knowledge and background necessary for our global businesses, those businesses and our results of operations may be adversely affected.

Regulatory changes outside of the United States, including in Canada and the European Union, could adversely impact our results of operations and limit our growth. Insurance laws or regulations that are adopted or amended in jurisdictions outside the U.S. may be more restrictive than current laws or regulations and may result in lower revenues and/or higher costs of compliance and thus could materially and adversely affect our results of operations and limit our growth.

In particular, the European Union's executive body, the European Commission, implemented new capital adequacy and risk management regulations called Solvency II on January 1, 2016 that apply to the Company's businesses across the European Union. Under Solvency II, it is possible that the U.S. parent of a European Union subsidiary could be subject to certain Solvency II requirements if the regulator determines that the subsidiary's capital position is dependent on the parent company and the U.S. company is not already subject to regulations deemed "equivalent" to Solvency II. In addition, regulators in countries where the Company has operations are working with the International Association of Insurance Supervisors (IAIS) (and with the NAIC, the Federal Reserve and FIO in the U.S.) to consider changes to insurance company supervision, including group supervision and group capital requirements.

In July 2013, the IAIS published a methodology for identifying "global systemically important insurers" (G-SIIs) and high level policy measures that will apply to the G-SIIs. The methodology and measures were endorsed by the Financial Stability Board (FSB) created by the G-20. Using the IAIS methodology, the FSB, working with national authorities and the IAIS, identified nine insurers that they designated as G-SIIs. The IAIS is working on the policy measures which include higher capital requirements and enhanced supervision. The Company has not been designated as a G-SII by the FSB; however, the FSB updates the list annually, and it is possible that the methodologies could be amended or interpreted differently in the future and the Company could be named as a G-SII.

The IAIS also is in the process of developing the Common Framework for the Supervision of Internationally Active Insurance Groups (Comframe). The IAIS released a Consultation Draft in October 2013, which may lead to similar policy measures as those being developed for G-SIIs, including group supervision and an Insurance Capital Standard (i.e., global group capital requirement). The IAIS revised the Comframe guidance based on comments received and is currently in the process of field testing many of the requirements. The Company would be considered an Internationally Active Insurance Group under the current Consultation Draft. It is possible that Comframe, if adopted, could lead to enhanced supervision and higher capital standards on a global basis if the IAIS, the NAIC and the individual states adopt the proposed or similar provisions.

While it is not yet known how or if these actions will impact us, such regulation could result in increased costs of compliance, increased disclosure and less flexibility in our capital management, and could adversely impact our results of operations and limit our 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 our products could reduce our future profitability. Our underwriting profitability depends in large part on our ability to competitively price our products at a level that will adequately compensate us for the risks assumed. As a result, risk selection and pricing through the application of actuarially sound and segmented underwriting criteria is critical. However, laws or regulations, or judicial or administrative findings, could significantly curtail the use of particular types of underwriting criteria. For example, we may use credit scoring as a factor in pricing decisions where allowed by state law. Some consumer groups and/or regulators have alleged that the use of credit scoring violates the law by discriminating against persons belonging to a protected class and are calling for the prohibition or restrictions on the use of credit scoring in underwriting and pricing. A variety of other underwriting criteria and other data or methodologies used in personal and commercial insurance have been and continue to be criticized by regulators, government agencies, consumer groups or individuals on similar or other grounds. Resulting regulatory actions or litigation could result in negative publicity and/or generate adverse rules or findings, such as curtailing the use of important underwriting criteria, or other data or methodologies, each of which could adversely affect our future profitability.

Acquisitions and integration of acquired businesses may result in operating difficulties and other unintended consequences. From time to time we may investigate and pursue acquisition opportunities if we believe that such opportunities are consistent with our long-term objectives and that the potential rewards of an acquisition justify the risks. The process of integrating an acquired company or business can be complex and costly, however, and may create unforeseen operating difficulties and expenditures. For example, acquisitions may present significant risks, including:

- the potential disruption of our ongoing business;
- the ineffective integration of, or other difficulties with, underwriting, risk management, claims handling, information technology and actuarial practices;
- uncertainties related to an acquiree's reserve estimates and its design and operation of internal controls over financial reporting;
- the diversion of management time and resources to acquisition integration challenges;
- the loss of key employees;
- unforeseen liabilities;
- the cultural challenges associated with integrating employees; and
- the impact on our financial position and/or credit ratings.

Acquired businesses may not perform as projected, any cost savings and other synergies anticipated from the acquisition may not materialize and costs associated with the integration may be greater than anticipated. Acquired businesses may not be successfully integrated, resulting in substantial costs or delays and adversely affecting our ability to compete. Accordingly, our results of operations might be materially and adversely affected.

We could be adversely affected if our controls designed to ensure compliance with guidelines, policies and legal and regulatory standards are not effective. Our business is highly dependent on our ability to engage on a daily basis in a large number of insurance underwriting, claim processing and investment activities, many of which are highly complex. These activities often are subject to internal guidelines and policies, as well as legal and regulatory standards. A control system, no matter how well designed and operated, can provide only reasonable assurance that the control system's objectives will be met. If our controls are not effective, it could lead to financial loss, unanticipated risk exposure (including underwriting, credit and investment risk), errors in financial reporting or damage to our reputation.

In addition, ineffective controls, including with respect to any joint ventures or recently acquired businesses, could lead to litigation or regulatory action. The volume of claims and amount of damages and penalties claimed in litigation and regulatory proceedings against various types of financial institutions have increased in recent years. Substantial legal liability or significant regulatory action against us could have a material adverse financial impact. See note 16 of notes to our consolidated financial statements herein for a discussion of certain legal proceedings in which we are involved.

Our businesses may be adversely affected if we are unable to hire and retain qualified employees. There is significant competition from within the property and casualty insurance industry and from businesses outside the industry for qualified employees, especially those in key positions and those possessing highly specialized underwriting knowledge. Our performance is largely dependent on the talents, efforts and proper conduct of highly-skilled individuals, including our senior executives (many of whom have decades of experience in the insurance industry), and the Board of Directors regularly engages in succession discussions. See "Item 10 Directors, Executive Officers and Corporate Governance" for more information relating to our executive officers, including our senior leaders. For many of our senior positions, we compete for talent not just with insurance or financial service companies, but with other large companies and other businesses. Our continued ability to compete effectively in our businesses and to expand into new business areas depends on our ability to attract new employees and to retain and motivate our existing employees. If we are not able to successfully

71

Table of Contents

attract, retain and motivate our employees, our business, financial results and reputation could be materially and adversely affected.

Intellectual property is important to our business, and we may be unable to protect and enforce our own intellectual property or we may be subject to claims for infringing the intellectual property of others. Our success depends in part upon our ability to protect our proprietary trademarks, technology and other intellectual property. See "Item 1 Other Information Intellectual Property." We may not, however, be able to protect our intellectual property from unauthorized use and disclosure by others. Further, the intellectual property laws may not prevent our competitors from independently developing trademarks, products and services that are similar to ours. Moreover, the agreements we execute to protect our intellectual property rights may be breached, and we may not have adequate remedies in response. Our attempts to patent or register our intellectual property rights in the U.S. and worldwide may not succeed initially or may later be challenged by third parties. Further, the laws of certain countries outside the United States may not adequately protect our intellectual property rights. We may incur significant costs in our efforts to protect and enforce our intellectual property, including the initiation of expensive and protracted litigation, and we may not prevail. Any inability to enforce our intellectual property rights could have a material adverse effect on our business and our ability to compete.

We may be subject to claims by third parties from time to time that our products, services and technologies infringe on their intellectual property rights. In recent years, certain entities have acquired patents in order to allege claims of infringement against companies, including in some cases, us. Any intellectual property infringement claims brought against us could cause us to spend significant time and money to defend ourselves, regardless of the merits of the claims. If we are found to infringe any third-party intellectual property rights, it could result in reputational harm, payment of significant monetary damages, payment of license fees (if licenses are even available to us, on reasonable terms or otherwise) and/or substantial time and expense to redesign our products, services or technologies to avoid the infringement. In addition, we use third party software in some of our products, services and technologies. If any of our software vendors or licensors are faced with infringement claims, we may lose our ability to use such software until the dispute is resolved. If we cannot successfully redesign an infringing product, service or technology (or procure a substitute version), this could have a material adverse effect on our business and our ability to compete.

Changes to existing accounting standards may adversely impact our reported results. As a U.S.-based SEC registrant, we are currently required to prepare our financial statements in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP), as promulgated by the Financial Accounting Standards Board (FASB), subject to the accounting-related rules and interpretations of the Securities and Exchange Commission (SEC). During the last several years, the SEC has been evaluating whether, when and how International Financial Reporting Standards (IFRS) should be incorporated into the U.S. financial reporting system, including for companies such as us. In December 2014, the SEC indicated that it plans to explore allowing IFRS financial statements or financial information as supplemental information in SEC filings.

The FASB and the International Accounting Standards Board (IASB) have been working on a long-term project to converge U.S. GAAP and IFRS, which included a project on insurance accounting. While the FASB decided during 2014 to retain current U.S. GAAP for property and casualty insurance contracts, the IASB is continuing its development of a new model that is significantly different than current U.S. GAAP.

We are not able to predict whether we will choose to, or be required to, adopt IFRS or how the adoption of IFRS (or the convergence of U.S. GAAP and IFRS, including the project on the accounting for insurance contracts) may impact our financial statements in the future. Changes in accounting standards, particularly those that specifically apply to insurance company operations, may impact the content and presentation of our reported financial results and could cause increased volatility in reported earnings, resulting in other adverse impacts on the Company's ratings and cost of capital, and decrease the understandability of our financial results as well as the comparability of our reported results with other insurers.

Changes in U.S. tax laws or in the tax laws of other jurisdictions in which we operate could adversely impact us. Tax laws may change in ways that adversely impact us. For example, federal tax legislation could be enacted to reduce the existing statutory U.S. federal corporate income tax rate from 35%, which would, accordingly, reduce any U.S. deferred tax asset. The amount of any net deferred tax asset is volatile and significantly impacted by changes in unrealized investment gains and losses. The effect of a reduction in a tax rate on net deferred tax assets is required to be recognized, in full, as a reduction of income from continuing operations in the period when enacted and, along with other changes in the tax rules that may increase the Company's actual tax expense, could materially and adversely affect our results of operations.

Our investment portfolio has benefited from tax exemptions and certain other tax laws, including, but not limited to, those governing dividends-received deductions and tax credits (such as foreign tax credits). Federal and/or state tax legislation could be enacted in connection with deficit reduction or various types of fundamental tax reform that would lessen or eliminate some or all of the tax advantages currently benefiting us and therefore could materially and adversely impact our results of operations. In addition, such legislation could adversely affect the value of our investment portfolio, particularly changes to the taxation of interest from municipal bonds (which comprise 45% of our investment portfolio as of December 31, 2015) could materially and adversely impact the value of those bonds.

Other tax law changes could adversely impact us. The size of the federal deficit, as well as the budget constraints faced by many states and localities, increases the likelihood that Congress and state and local governments will raise revenue by enacting legislation increasing the taxes paid by individuals and corporations.

Item 1B. UNRESOLVED STAFF COMMENTS

NONE.

Item 2. PROPERTIES

The Company leases its principal executive offices in New York, New York, as well as 234 field and claim offices totaling approximately 4.7 million square feet throughout the United States under leases or subleases with third parties. The Company also leases offices in Canada, the United Kingdom, Brazil, India, China and the Republic of Ireland that house operations (primarily for the Business and International Insurance segment) in those locations. The Company owns six buildings in Hartford, Connecticut, consisting of approximately 1.8 million square feet of office space. The Company also owns an office building in St. Paul, Minnesota which consists of approximately 587,000 square feet of office space. The Company also owns buildings located in Norcross, Georgia and Omaha, Nebraska. The Company owns a building in London, England, which houses a portion of its Business and International Insurance segment's operations in the United Kingdom.

In the opinion of the Company's management, the Company's properties are adequate and suitable for its business as presently conducted and are adequately maintained.

Table of Contents

Item 3. LEGAL PROCEEDINGS

The information required with respect to this item can be found under "Contingencies" in note 16 of notes to the consolidated financial statements in this annual report and is incorporated by reference into this Item 3.

Item 4. MINE SAFETY DISCLOSURES

NONE.

EXECUTIVE OFFICERS OF THE REGISTRANT

Information about the Company's executive officers is incorporated by reference from Part III, Item 10 of this annual report.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's common stock is traded on the New York Stock Exchange under the symbol "TRV." The number of holders of record, including individual owners, of the Company's common stock was 47,403 as of February 5, 2016. This is not the actual number of beneficial owners of the Company's common stock, as shares are held in "street name" by brokers and others on behalf of individual owners. The following table sets forth the high and low closing sales prices of the Company's common stock for each quarter during the last two fiscal years and the amount of cash dividends declared per share.

	High	Low	Cash Dividend Declared
2015			
First Quarter	$ 109.73	$ 102.82	$ 0.55
Second Quarter	108.67	96.14	0.61
Third Quarter	107.82	97.49	0.61
Fourth Quarter	115.83	98.34	0.61
2014			
First Quarter	$ 89.33	$ 80.26	$ 0.50
Second Quarter	95.60	84.39	0.55
Third Quarter	95.95	89.12	0.55
Fourth Quarter	106.95	91.81	0.55

The Company paid cash dividends per share of $2.38 in 2015 and $2.15 in 2014. Future dividend decisions will be based on, and affected by, a number of factors, including the operating results and financial requirements of the Company and the impact of dividend restrictions. For information on dividends, as well as restrictions on the ability of certain of the Company's subsidiaries to transfer funds to the Company in the form of cash dividends or otherwise, see "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources." Dividends will be paid by the Company only if declared by its board of directors out of funds legally available, and subject to any other restrictions that may be applicable to the Company.

Table of Contents

SHAREHOLDER RETURN PERFORMANCE GRAPH

The following graph shows a five-year comparison of the cumulative total return to shareholders for the Company's common stock and the common stock of companies included in the S&P 500 Index and the S&P 500 Property & Casualty Insurance Index, which the Company believes is the most appropriate comparative index.

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(1) The cumulative return to shareholders is a concept used to compare the performance of a company's stock over time and is the ratio of the net stock price change plus the cumulative amount of dividends over the specified time period (assuming dividend reinvestment), to the stock price at the beginning of the time period.

(2) Assumes $100 invested in common shares of The Travelers Companies, Inc. on December 31, 2010.

(3) Companies in the S&P 500 Property & Casualty Insurance Index as of December 31, 2015 were the following: The Travelers Companies, Inc., The Chubb Corporation, Cincinnati Financial Corporation, The Progressive Corporation, The Allstate Corporation, XL Group plc, and ACE Limited.

Returns of each of the companies included in this index have been weighted according to their respective market capitalizations.

Table of Contents

ISSUER PURCHASES OF EQUITY SECURITIES

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

Period Beginning	Period Ending	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the plans or programs (in millions)
Oct. 1, 2015	Oct. 31, 2015	1,524,460	$ 113.18	1,518,496	$ 4,162
Nov. 1, 2015	Nov. 30, 2015	4,603,157	113.93	4,601,691	3,638
Dec. 1, 2015	Dec. 31, 2015	2,695,638	112.81	2,693,493	3,334
Total		8,823,255	113.46	8,813,680	3,334

The Company's board of directors has approved common share repurchase authorizations under which repurchases may be made from time to time in the open market, pursuant to pre-set trading plans meeting the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934, in private transactions or otherwise. The authorizations do not have a stated expiration date. The timing and actual number of shares to be repurchased in the future will depend on a variety of factors, including the Company's financial position, earnings, 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. In April 2015, the board of directors approved a share repurchase authorization that added an additional $5.0 billion of repurchase capacity.

The Company acquired 9,575 shares for a total cost of approximately $1 million during the three months ended December 31, 2015 that were not part of the publicly announced share repurchase authorization. These shares consisted of shares retained to cover payroll withholding taxes in connection with the vesting of restricted stock awards and shares used by employees to cover the exercise price of certain stock options that were exercised.

Information relating to compensation plans under which the Company's equity securities are authorized for issuance is set forth in Part III Item 12 of this Report.

Table of Contents

Item 6. SELECTED FINANCIAL DATA

	At and for the year ended December 31,				
	2015	2014	2013	2012	2011
	(in millions, except per share amounts)				
Total revenues	**$ 26,800**	$ 27,162	$ 26,191	$ 25,740	$ 25,446
Net income	**$ 3,439**	$ 3,692	$ 3,673	$ 2,473	$ 1,426
Total investments	**$ 70,470**	$ 73,261	$ 73,160	$ 73,838	$ 72,701
Total assets	**100,184**	103,078	103,812	104,938	104,575
Claims and claim adjustment expense reserves	**48,295**	49,850	50,895	50,922	51,392
Total long-term debt	**5,844**	5,849	6,246	5,750	6,255
Total liabilities	**76,586**	78,242	79,016	79,533	80,098
Total shareholders' equity	**23,598**	24,836	24,796	25,405	24,477
Net income per share					
Basic	**$ 10.99**	$ 10.82	$ 9.84	$ 6.35	$ 3.40
Diluted	**$ 10.88**	$ 10.70	$ 9.74	$ 6.30	$ 3.36
Year-end common shares outstanding	**295.9**	322.2	353.5	377.4	392.8
Per common share amounts					
Cash dividends	**$ 2.38**	$ 2.15	$ 1.96	$ 1.79	$ 1.59
Book value	**$ 79.75**	$ 77.08	$ 70.15	$ 67.31	$ 62.32

Table of Contents

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion and analysis of the Company's financial condition and results of operations.

On November 1, 2013, the Company acquired all of the issued and outstanding shares of Dominion for an aggregate purchase price of approximately $1.035 billion. The results of operations of the acquired business are reported in the Company's Business and International Insurance segment from the closing date.

FINANCIAL HIGHLIGHTS

2015 Consolidated Results of Operations

- Net income of $3.44 billion, or $10.99 per share basic and $10.88 per share diluted
- Net earned premiums of $23.87 billion
- Catastrophe losses of $514 million ($338 million after-tax)
- Net favorable prior year reserve development of $941 million ($617 million after-tax)
- Combined ratio of 88.3%
- Net investment income of $2.38 billion ($1.91 billion after-tax)
- Operating cash flows of $3.43 billion

2015 Consolidated Financial Condition

- Total investments of $70.47 billion; fixed maturities and short-term securities comprise 93% of total investments
- Total assets of $100.18 billion
- Total debt of $6.34 billion, resulting in a debt-to-total capital ratio of 21.2% (22.1% excluding net unrealized investment gains, net of tax)
- Repurchased 30.3 million common shares for total cost of $3.22 billion and paid $739 million of dividends to shareholders
- Shareholders' equity of $23.60 billion
- Net unrealized investment gains of $1.97 billion ($1.29 billion after-tax)

Book value per common share of $79.75

Holding company liquidity of $1.63 billion

Table of Contents

CONSOLIDATED OVERVIEW

Consolidated Results of Operations

(for the year ended December 31, in millions except per share amounts)	2015	2014	2013
Revenues			
Premiums	**$ 23,874**	$ 23,713	$ 22,637
Net investment income	**2,379**	2,787	2,716
Fee income	**445**	438	395
Net realized investment gains	**3**	79	166
Other revenues	**99**	145	277
Total revenues	**26,800**	27,162	26,191
Claims and expenses			
Claims and claim adjustment expenses	**13,723**	13,870	13,307
Amortization of deferred acquisition costs	**3,885**	3,882	3,821
General and administrative expenses	**4,079**	3,952	3,757
Interest expense	**373**	369	361
Total claims and expenses	**22,060**	22,073	21,246
Income before income taxes	**4,740**	5,089	4,945
Income tax expense	**1,301**	1,397	1,272
Net income	**$ 3,439**	$ 3,692	$ 3,673
Net income per share			
Basic	**$ 10.99**	$ 10.82	$ 9.84
Diluted	**$ 10.88**	$ 10.70	$ 9.74
Combined ratio			
Loss and loss adjustment expense ratio	**56.6%**	57.6%	57.9%
Underwriting expense ratio	**31.7**	31.4	31.9
Combined ratio	**88.3%**	89.0%	89.8%
Incremental impact of direct to consumer initiative on combined ratio	**0.5%**	0.6%	0.5%

The following discussions of the Company's net income and segment operating income are presented on an after-tax basis. Discussions of the components of net income and segment operating income are presented on a pretax basis, unless otherwise noted. Discussions of earnings per common share are presented on a diluted basis.

Overview

Diluted net income per share of $10.88 in 2015 increased by 2% over diluted net income per share of $10.70 in 2014. Net income of $3.44 billion in 2015 decreased by 7% from net income of $3.69 billion in 2014. The percentage increase in diluted net income per share compared with the percentage decrease in net income reflected the impact of share repurchases in recent periods. The decrease in net income primarily reflected the pretax impacts of (i) lower net investment income, (ii) lower net realized investment gains, (iii) a decline in other revenues and (iv) slightly lower underwriting margins excluding catastrophe losses and prior year reserve development ("underlying underwriting margins"), partially offset by (v) lower catastrophe losses. Catastrophe losses in 2015 and 2014 were $514 million and $709 million, respectively. Net favorable prior year reserve development in both 2015 and 2014 was $941 million. Partially offsetting this net pretax decrease in income was a related decrease in income tax expense. In addition, income tax expense in 2015 was reduced by $32 million as a result of the resolution of prior year tax matters.

Diluted net income per share of $10.70 in 2014 increased by 10% over diluted net income per share of $9.74 in 2013. Net income of $3.69 billion in 2014 increased slightly over net income of $3.67 billion in 2013. The higher percentage increase in diluted net income per share reflected the impact of share repurchases in recent periods. The slight increase in net income primarily reflected the pretax impacts of (i) higher underlying underwriting margins, (ii) higher net favorable prior year reserve development and (iii) higher net investment income, partially offset by (iv) higher catastrophe losses, (v) a decline in other revenues due to a gain from the settlement of a legal matter in 2013 and (vi) lower net realized investment gains. Catastrophe losses in 2014 and 2013 were $709 million and $591 million, respectively. Net favorable prior year reserve development in 2014 and 2013 was $941 million and $840 million, respectively. The higher underlying underwriting margins primarily resulted from the impacts of (i) earned pricing that exceeded loss cost trends in each of the Company's business segments, (ii) lower reinsurance costs and (iii) a 2014 reduction in the estimated liability for state assessments to be paid by the Company related to workers' compensation premiums, partially offset by (iv) an increase in non-catastrophe weather-related losses and (v) a higher level of what the Company defines as large losses. Partially offsetting this net pretax increase in income was a related increase in income tax expense. In addition, income tax expense in 2013 was reduced by $63 million as a result of the resolution of prior year tax matters.

The Company has insurance operations in Canada, the United Kingdom and the Republic of Ireland, as well as in Brazil, primarily through a joint venture. Because these operations are conducted in local currencies other than the U.S. dollar, the Company is subject to changes in foreign currency exchange rates. For the years ended December 31, 2015, 2014 and 2013, changes in foreign currency exchange rates had the impact of lowering the reported line items in the statement of income by insignificant amounts. The impact of these changes was not material to the Company's net income or the Business and International Insurance segment's operating income for the years reported.

Revenues

Earned Premiums

Earned premiums in 2015 were $23.87 billion, $161 million or 1% higher than in 2014. In the Business and International Insurance and the Bond & Specialty Insurance segments, earned premiums in 2015 were comparable to 2014. In the Personal Insurance segment, earned premiums in 2015 increased by 2% over 2014.

Earned premiums in 2014 were $23.71 billion, $1.08 billion or 5% higher than in 2013. In the Business and International Insurance segment, earned premiums in 2014 increased by 9% over 2013, primarily reflecting the impact of the acquisition of Dominion in November 2013. In the Bond & Specialty Insurance segment, earned premiums in 2014 increased by 5% over 2013. In the Personal Insurance segment, earned premiums in 2014 decreased by 3% from 2013.

Factors contributing to the changes in earned premiums in each segment in 2015 and 2014 compared with the respective prior year are discussed in more detail in the segment discussions that follow.

Table of Contents

Net Investment Income

The following table sets forth information regarding the Company's investments.

(for the year ended December 31, in millions)	2015	2014	2013
Average investments(1)	**$ 70,627**	$ 72,049	$ 70,697
Pretax net investment income	**2,379**	2,787	2,716
After-tax net investment income	**1,905**	2,216	2,186
Average pretax yield(2)	**3.4%**	3.9%	3.8%
Average after-tax yield(2)	**2.7%**	3.1%	3.1%

(1) Excludes net unrealized investment gains and losses, net of tax, and reflects cash, receivables for investment sales, payables on investment purchases and accrued investment income.

(2) Excludes net realized and unrealized investment gains and losses.

Net investment income in 2015 was $2.38 billion, $408 million or 15% lower than in 2014. Investment income from fixed maturity investments in 2015 was $2.09 billion, $153 million lower than in 2014. The decrease primarily resulted from lower long-term reinvestment rates available in the market and a modestly lower amount of fixed income investments that were impacted by the Company's $579 million payment in the first quarter of 2015 related to the settlement of the Asbestos Direct Action Litigation. Investment income generated by non-fixed maturity investments in 2015 was $317 million, $256 million lower than in 2014 due to lower private equity and hedge fund returns. Private equity returns in 2015 were impacted by lower valuations for energy-related investments.

Net investment income in 2014 was $2.79 billion, $71 million or 3% higher than in 2013. Investment income from fixed maturity investments in 2014 was $2.24 billion, $66 million lower than in 2013. The decrease primarily resulted from lower long-term reinvestment yields available in the market, partially offset by the impact of the acquisition of Dominion. Investment income generated by non-fixed maturity investments in 2014 was $573 million, $141 million higher than in 2013 due to higher private equity and real estate partnership returns.

Fee Income

The National Accounts market in the Business and International Insurance segment is the primary source of the Company's fee-based business. The $7 million and $43 million increases in fee income in 2015 and 2014, respectively, compared with the respective prior years are described in the Business and International Insurance segment discussion that follows.

Net Realized Investment Gains

The following table sets forth information regarding the Company's net pretax realized investment gains.

(for the year ended December 31, in millions)	2015	2014	2013
Net Realized Investment Gains			
Other-than-temporary impairment losses	**$ (52)**	$ (26)	$ (15)
Other net realized investment gains	**55**	105	181
Net realized investment gains	**$ 3**	$ 79	$ 166

Table of Contents

Other Net Realized Investment Gains

Other net realized investment gains in 2015 included $81 million of net realized gains related to fixed maturity investments, $6 million of net realized investment gains related to equity securities, $2 million of net realized investment gains from real estate sales and $34 million of net realized investment losses related to other investments. The net realized investment losses related to other investments included $26 million of realized foreign exchange translation losses incurred in connection with the Company's increased ownership of Travelers Participações em Seguros Brasil S.A.

Other net realized investment gains in 2014 included $35 million of net realized gains resulting from the sale of substantially all of one of the Company's real estate joint venture investments. The remaining $70 million of other net realized gains in 2014 were primarily driven by $32 million of net realized investment gains related to fixed maturity investments, $24 million of net realized investment gains related to equity securities, $8 million of net realized investment gains related to other investments and $6 million of net realized investment gains from real estate sales.

Other net realized gains in 2013 of $181 million included $115 million of net realized gains associated with U.S. Treasury futures contracts, which require daily mark-to-market settlement and are used from time to time to shorten the duration of the Company's fixed maturity investment portfolio. The remaining $66 million of other net realized investment gains in 2013 were primarily driven by $41 million of net realized investment gains related to fixed maturity investments, $15 million of net realized investment gains related to equity securities and $10 million of net realized investment gains related to other investments.

Other Revenues

Other revenues in all years presented included installment premium charges. Other revenues in 2014 and 2013 also included revenues associated with the runoff of the Company's National Flood Insurance Program (NFIP) business that was sold on a renewal rights basis in 2013. Other revenues in 2013 also included a $91 million gain from the settlement of a legal proceeding, which is discussed in more detail in note 16 of notes to the consolidated financial statements herein, and a $20 million gain from the sale of the NFIP renewal rights.

Claims and Expenses

Claims and Claim Adjustment Expenses

Claims and claim adjustment expenses in 2015 were $13.72 billion, $147 million or 1% lower than in 2014, primarily reflecting (i) lower catastrophe losses and (ii) lower non-catastrophe weather-related losses, partially offset by (iii) the impact of loss cost trends. Catastrophe losses in 2015 included wildfires in California, hail and wind storms in several regions of the United States and winter storms in several regions of the United States. Catastrophe losses in 2014 included multiple wind and hail storms in several regions of the United States and a winter storm in the Mid-Atlantic, Midwestern and Southeastern regions of the United States.

Claims and claim adjustment expenses in 2014 were $13.87 billion, $563 million or 4% higher than in 2013, primarily reflecting (i) the impact of the acquisition of Dominion, (ii) the impact of loss cost trends, (iii) higher non-catastrophe weather-related losses, (iv) higher catastrophe losses and (v) a higher level of what the Company defines as large losses, partially offset by (vi) the impact of lower volumes of insured exposures (excluding the impact of the acquisition of Dominion) and (vii) higher net favorable prior year reserve development. Catastrophe losses in 2013 resulted from multiple tornado, wind and hail storms in several regions of the United States, as well as floods in Alberta, Canada and Storm Xaver in the United Kingdom.

Table of Contents

Factors contributing to net favorable prior year reserve development in each segment for the years ended December 31, 2015, 2014 and 2013 are discussed in more detail in note 7 of notes to the consolidated financial statements herein.

Significant Catastrophe Losses

The Company defines a "catastrophe" as an event that:

- is 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; and
- the Company's estimates of its ultimate losses before reinsurance and taxes exceed a pre-established dollar threshold.

The Company's threshold for disclosing catastrophes is determined at the reportable segment level. If a threshold for one segment or a combination thereof is pierced 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. The threshold for 2015 ranged from approximately $17 million to $30 million of losses before reinsurance and taxes.

The following table presents the amount of losses recorded by the Company for significant catastrophes that occurred in 2015, 2014 and 2013, the amount of related net unfavorable (favorable) prior year reserve development recognized in subsequent years, and the estimate of ultimate losses for those catastrophes at December 31, 2015, 2014 and 2013. For purposes of the table, a significant catastrophe is an event for which the Company estimates its ultimate losses will be $100 million or more after reinsurance and before taxes.

	Losses Incurred / Unfavorable (Favorable) Prior Year Reserve Development for the Year Ended December 31,			Estimated Ultimate Losses at December 31,		
(in millions, pretax and net of reinsurance)	**2015**	**2014**	**2013**	**2015**	**2014**	**2013**
2013						
PCS Serial Number:						
93 Severe wind and hail storms	$ 8	$ 5	$ 114	$ 127	$ 119	$ 114
15 Severe wind and hail storms	6	16	128	150	144	128
2014						
PCS Serial Number:						
32 Winter storm	(5)	144	n/a	139	144	n/a
43 Severe wind and hail storms	(4)	180	n/a	176	180	n/a
2015						
PCS Serial Number:						
68 Winter storm	140	n/a	n/a	140	n/a	n/a

n/a: not applicable.

Amortization of Deferred Acquisition Costs

Amortization of deferred acquisition costs of $3.89 billion in 2015 was comparable to 2014. Amortization of deferred acquisition costs in 2014 was $3.88 billion, $61 million or 2% higher than in 2013, primarily reflecting the impact of the acquisition of Dominion, partially offset by declines in the Personal Insurance segment. Amortization of deferred acquisition costs is discussed in more detail in the segment discussions that follow.

Table of Contents

General and Administrative Expenses

General and administrative expenses in 2015 were $4.08 billion, $127 million or 3% higher than in 2014. The increase primarily reflected the impact of a $76 million first quarter 2014 reduction in the estimated liability for state assessments related to workers' compensation premiums. General and administrative expenses in 2014 were $3.95 billion, $195 million or 5% higher than in 2013. The increase primarily reflected the impact of the acquisition of Dominion and increases in employee and technology related expenses, partially offset by a reduction in the estimated liability for state assessments primarily related to workers' compensation premiums. General and administrative expenses are discussed in more detail in the segment discussions that follow.

Interest Expense

Interest expense in 2015, 2014 and 2013 was $373 million, $369 million and $361 million, respectively. The increases in both 2015 and 2014 compared with the respective prior years primarily reflected slightly higher average levels of debt outstanding.

Income Tax Expense

Income tax expense in 2015 was $1.30 billion, $96 million or 7% lower than in 2014, which primarily resulted from the $349 million decrease in income before income taxes in 2015 and the $32 million reduction in income tax expense in 2015 resulting from the resolution of prior year tax matters. Income tax expense in 2014 was $1.40 billion, $125 million or 10% higher than in 2013, which primarily resulted from a $63 million reduction in income tax expense in 2013 resulting from the resolution of prior year tax matters, as well as the $144 million increase in income before income taxes in 2014.

The Company's effective tax rate was 27%, 27% and 26% in 2015, 2014 and 2013, respectively. The effective tax rates in all years were lower than the statutory rate of 35% primarily due to the impact of tax-exempt investment income on the calculation of the Company's income tax provision.

Combined Ratio

The combined ratio of 88.3% in 2015 was 0.7 points lower than the combined ratio of 89.0% in 2014.

The loss and loss adjustment expense ratio of 56.6% in 2015 was 1.0 points lower than the loss and loss adjustment expense ratio of 57.6% in 2014. Catastrophe losses accounted for 2.1 points and 3.0 points of the 2015 and 2014 loss and loss adjustment expense ratios, respectively. Net favorable prior year reserve development in 2015 and 2014 provided 3.9 points of benefit to the loss and loss adjustment expense ratio in each year. The loss and loss adjustment expense ratio excluding catastrophe losses and prior year reserve development ("underlying loss and loss adjustment expense ratio") in 2015 was 0.1 points lower than the 2014 ratio on the same basis.

The underwriting expense ratio of 31.7% in 2015 was 0.3 points higher than the underwriting expense ratio of 31.4% in 2014, primarily reflecting the impact of the first quarter 2014 reduction in the estimated liability for state assessments to be paid by the Company related to workers' compensation premiums in the Business and International Insurance segment.

The combined ratio of 89.0% in 2014 was 0.8 points lower than the combined ratio of 89.8% in 2013.

The loss and loss adjustment expense ratio of 57.6% in 2014 was 0.3 points lower than the loss and loss adjustment expense ratio of 57.9% in 2013. Catastrophe losses accounted for 3.0 points and 2.6 points of the 2014 and 2013 loss and loss adjustment expense ratios, respectively. Net favorable prior year reserve development in 2014 and 2013 provided 3.9 points and 3.7 points of benefit, respectively, to the loss and loss adjustment expense ratio. The underlying loss and loss adjustment expense ratio in 2014 was 0.5 points lower than the 2013 ratio on the same basis, primarily reflecting the impact of earned pricing that exceeded loss cost trends, partially offset by the impact of an increase in non-catastrophe weather-related losses and a higher level of what the Company defines as large losses.

The underwriting expense ratio of 31.4% in 2014 was 0.5 points lower than the underwriting expense ratio of 31.9% in 2013, primarily reflecting lower commission expenses in the Personal Insurance segment and a reduction in the estimated liability for state assessments primarily related to workers' compensation premiums in the Business and International Insurance segment, partially offset by the impact of the acquisition of Dominion and increases in employee and technology related expenses.

Written Premiums

Consolidated gross and net written premiums were as follows:

	Gross Written Premiums		
(for the year ended December 31, in millions)	**2015**	**2014**	**2013**
Business and International Insurance	**$ 16,067**	$ 16,202	$ 14,992
Bond & Specialty Insurance	**2,153**	2,165	2,131
Personal Insurance	**7,562**	7,265	7,534
Total	**$ 25,782**	$ 25,632	$ 24,657

	Net Written Premiums		
(for the year ended December 31, in millions)	**2015**	**2014**	**2013**
Business and International Insurance	**$ 14,583**	$ 14,636	$ 13,512
Bond & Specialty Insurance	**2,081**	2,103	2,030
Personal Insurance	**7,457**	7,165	7,225
Total	**$ 24,121**	$ 23,904	$ 22,767

Gross and net written premiums in 2015 both increased by 1% over 2014. Gross and net written premiums in 2014 increased by 4% and 5%, respectively, over 2013, primarily reflecting the impact of the acquisition of Dominion. Factors contributing to the changes in gross and net written premiums in each segment in 2015 and 2014 as compared with the respective prior year are discussed in more detail in the segment discussions that follow.

RESULTS OF OPERATIONS BY SEGMENT

Business and International Insurance

Results of the Company's Business and International Insurance segment were as follows:

(for the year ended December 31, in millions)	**2015**	**2014**	**2013**
Revenues:			
Earned premiums	**$ 14,521**	$ 14,512	$ 13,332
Net investment income	**1,824**	2,156	2,087
Fee income	**445**	438	395
Other revenues	**23**	46	160
Total revenues	**$ 16,813**	$ 17,152	$ 15,974

Total claims and expenses	**$ 13,874**	$ 14,007	$ 12,812
Operating income	**$ 2,170**	$ 2,347	$ 2,404
Loss and loss adjustment expense ratio	**59.6%**	61.6%	60.8%
Underwriting expense ratio	**32.5**	31.5	32.0
Combined ratio	**92.1%**	93.1%	92.8%

Table of Contents

Overview

Operating income in 2015 was $2.17 billion, $177 million or 8% lower than operating income of $2.35 billion in 2014. The decrease primarily reflected the pretax impacts of (i) lower net investment income and (ii) lower underlying underwriting margins, partially offset by (iii) lower catastrophe losses and (iv) higher net favorable prior year reserve development. Catastrophe losses in 2015 and 2014 were $247 million and $367 million, respectively. Net favorable prior year reserve development in 2015 and 2014 was $405 million and $322 million, respectively. The lower underlying underwriting margins primarily resulted from the pretax impacts of a 2014 reduction in the estimated liability for state assessments to be paid by the Company related to workers' compensation premiums, partially offset by lower non-catastrophe weather-related losses. Partially offsetting this net pretax decrease in income was a related decrease in income tax expense. In addition, income tax expense in 2015 was reduced by $12 million as a result of the resolution of prior year tax matters.

Operating income in 2014 was $2.35 billion, $57 million or 2% lower than operating income of $2.40 billion in 2013. The decrease primarily reflected an increase in income taxes and a slight decrease in operating income before income taxes. The slight decrease in operating income before income taxes reflected the pretax impacts of (i) lower net favorable prior year reserve development, (ii) a decline in other revenues due to a gain from the settlement of a legal matter in 2013 and (iii) higher catastrophe losses, largely offset by (iv) higher underlying underwriting margins and (v) an increase in net investment income. Catastrophe losses in 2014 and 2013 were $367 million and $333 million, respectively. Net favorable prior year reserve development in 2014 and 2013 was $322 million and $399 million, respectively. The higher underlying underwriting margins in 2014 primarily reflected (i) earned pricing that exceeded loss cost trends and (ii) a reduction in the estimated liability for state assessments to be paid by the Company related to workers' compensation premiums, partially offset by (iii) higher non-catastrophe weather-related losses and (iv) a higher level of what the Company defines as large losses. The increase in income tax expense was primarily due to the impact of a $43 million reduction in income tax expense in 2013 resulting from the resolution of prior year tax matters.

Revenues

Earned Premiums

Earned premiums of $14.52 billion in 2015 were comparable to 2014. Earned premiums in 2014 were $14.51 billion, $1.18 billion or 9% higher than in 2013. The changes in both 2015 and 2014 reflected the impact of changes in net written premiums over the preceding twelve months. The increase in net written premiums in 2014 was primarily due to the acquisition of Dominion.

Net Investment Income

Net investment income in 2015 was $1.82 billion, $332 million or 15% lower than in 2014. Net investment income in 2014 was $2.16 billion, $69 million or 3% higher than in 2013, primarily reflecting the impact of the acquisition of Dominion. Included in the Business and International Insurance segment are certain legal entities whose invested assets and related net investment income are reported exclusively in this segment and not allocated among all business segments. Refer to the "Net Investment Income" section of the "Consolidated Results of Operations" discussion herein for a description of the factors contributing to the changes in the Company's consolidated net investment income in 2015 and 2014 compared with the respective prior years. In addition, refer to note 2 of notes to the consolidated financial statements herein for a discussion of the Company's net investment income allocation methodology.

Table of Contents

Fee Income

National Accounts is the primary source of fee income due to its service businesses, which include claim and loss prevention services to large companies that choose to self-insure a portion of their insurance risks, as well as claims and policy management services to workers' compensation residual market pools. Fee income in 2015 was $445 million, $7 million or 2% higher than in 2014. Fee income in 2014 was $438 million, $43 million or 11% higher than in 2013. The increases in both years primarily reflected higher serviced premium volume in workers' compensation residual market pools and higher claim volume in the large deductible business.

Other Revenues

Other revenues in 2013 included a $91 million gain from the settlement of a legal proceeding, which is discussed in more detail in note 16 of notes to the consolidated financial statements herein.

Claims and Expenses

Claims and Claim Adjustment Expenses

Claims and claim adjustment expenses in 2015 were $8.86 billion, $286 million or 3% lower than in 2014. The decrease primarily reflected (i) lower catastrophe losses, (ii) higher net favorable prior year reserve development and (iii) lower non-catastrophe weather-related losses, partially offset by (iv) the impact of loss cost trends. Claims and claim adjustment expenses in 2014 were $9.15 billion, $860 million or 10% higher than in 2013. The increase primarily reflected (i) the impact of the acquisition of Dominion, (ii) the impact of loss cost trends, (iii) higher non-catastrophe weather-related losses, (iv) a higher level of what the Company defines as large losses, (v) lower net favorable prior year reserve development and (vi) higher catastrophe losses, partially offset by (vii) the impact of lower volumes of insured exposures (excluding the impact of the acquisition of Dominion). Factors contributing to net favorable prior year reserve development during the years ended December 31, 2015, 2014 and 2013 are discussed in more detail in note 7 of notes to the consolidated financial statements herein.

Amortization of Deferred Acquisition Costs

Amortization of deferred acquisition costs of $2.33 billion in 2015 was comparable to 2014. Amortization of deferred acquisition costs in 2014 was $2.32 billion, $163 million or 8% higher than in 2013, primarily reflecting the impact of the acquisition of Dominion.

General and Administrative Expenses

General and administrative expenses in 2015 were $2.69 billion, $145 million or 6% higher than in 2014, primarily reflecting the impacts of the 2014 reduction in the estimated liability for state assessments to be paid by the Company related to workers' compensation premiums, higher technology and employee related expenses and higher contingent commissions. General and administrative expenses in 2014 were $2.54 billion, $172 million or 7% higher than in 2013, primarily reflecting the impact of the acquisition of Dominion and increases in employee and technology related expenses, partially offset by a reduction in the estimated liability for state assessments primarily related to workers' compensation premiums.

Income Tax Expense

Income tax expense in 2015 was $769 million, $29 million or 4% lower than in 2014, which primarily resulted from the $206 million decrease in income before income taxes in 2015 and the $12 million reduction in income tax expense in 2015 resulting from the resolution of prior year tax matters. Income tax expense in 2014 was $798 million, $40 million or 5% higher than in 2013, primarily reflecting the impact of a $43 million reduction in income tax expense in 2013 resulting from the resolution of prior year tax matters, partially offset by the $17 million decrease in income before income taxes in 2014.

Combined Ratio

The combined ratio of 92.1% in 2015 was 1.0 point lower than the combined ratio of 93.1% in 2014.

The loss and loss adjustment expense ratio of 59.6% in 2015 was 2.0 points lower than the loss and loss adjustment expense ratio of 61.6% in 2014. Catastrophe losses in 2015 and 2014 accounted for 1.7 points and 2.5 points, respectively, of the loss and loss adjustment expense ratio. Net favorable prior year reserve development in 2015 and 2014 provided 2.8 points and 2.2 points of benefit, respectively, to the loss and loss adjustment expense ratio. The 2015 underlying loss and loss adjustment expense ratio was 0.6 points lower than the 2014 ratio on the same basis, primarily reflecting lower non-catastrophe weather-related losses.

The underwriting expense ratio of 32.5% in 2015 was 1.0 point higher than the underwriting expense ratio of 31.5% in 2014, primarily reflecting the impact of the 2014 reduction in the estimated liability for state assessments to be paid by the Company related to workers' compensation premiums and the increase in general and administrative expenses discussed above.

The combined ratio of 93.1% in 2014 was 0.3 points higher than the combined ratio of 92.8% in 2013.

The loss and loss adjustment expense ratio of 61.6% in 2014 was 0.8 points higher than the loss and loss adjustment expense ratio of 60.8% in 2013. Catastrophe losses in 2014 and 2013 accounted for 2.5 points of the loss and loss adjustment expense ratio in each year. Net favorable prior year reserve development in 2014 and 2013 provided 2.2 points and 3.0 points of benefit, respectively, to the loss and loss adjustment expense ratio. The underlying loss and loss adjustment expense ratio in 2014 was comparable to the 2013 ratio on the same basis, as the impact of earned pricing that exceeded loss cost trends was offset by higher non-catastrophe weather-related losses and a higher level of what the Company defines as large losses.

The underwriting expense ratio of 31.5% in 2014 was 0.5 points lower than the underwriting expense ratio of 32.0% in 2013, primarily reflecting the impact of an increase in earned premiums and a reduction in the estimated liability for state assessments primarily related to workers' compensation premiums, partially offset by the increase in general and administrative expenses discussed above.

Table of Contents

Written Premiums

The Business and International Insurance segment's gross and net written premiums by market were as follows:

(for the year ended December 31, in millions)	Gross Written Premiums 2015	2014	2013
Domestic:			
Select Accounts	**$ 2,773**	$ 2,754	$ 2,774
Middle Market	**6,645**	6,489	6,250
National Accounts	**1,725**	1,690	1,606
First Party	**1,844**	1,846	1,855
Specialized Distribution	**1,117**	1,081	1,092
Total Domestic	**14,104**	13,860	13,577
International	**1,963**	2,342	1,415
Total Business and International Insurance	**$ 16,067**	$ 16,202	$ 14,992

(for the year ended December 31, in millions)	Net Written Premiums 2015	2014	2013
Domestic:			
Select Accounts	**$ 2,716**	$ 2,707	$ 2,724
Middle Market	**6,325**	6,108	5,862
National Accounts	**1,048**	1,047	1,010
First Party	**1,564**	1,579	1,552
Specialized Distribution	**1,111**	1,074	1,085
Total Domestic	**12,764**	12,515	12,233
International	**1,819**	2,121	1,279
Total Business and International Insurance	**$ 14,583**	$ 14,636	$ 13,512

Gross written premiums in 2015 were 1% lower than in 2014, while net written premiums in 2015 were comparable to 2014. Gross and net written premiums in 2015 were negatively impacted by changes in foreign currency exchange rates. Excluding the International surety line of business, for which the following are not relevant measures, business retention rates in 2015 remained strong and were higher than in 2014. Renewal premium changes in 2015 remained positive but were lower than in 2014. New business premiums in 2015 decreased from 2014.

Gross and net written premiums in 2014 both increased by 8% over the same period of 2013, primarily reflecting the impact of the acquisition of Dominion. Business retention rates in 2014 remained strong and were higher than in 2013. Renewal premium changes remained positive in 2014 but were lower than in 2013. New business premiums in 2014 increased over 2013.

Select Accounts. Net written premiums of $2.72 billion in 2015 were comparable to 2014. Business retention rates in 2015 remained strong and were higher than in 2014. Renewal premium changes in 2015 remained positive but were lower than in 2014. New business premiums in 2015 were comparable to 2014. Net written premiums of $2.71 billion in 2014 decreased by 1% from 2013. Business retention rates in 2014 were strong and higher than in 2013. Renewal premium changes in 2014 remained positive but were lower than in 2013. New business premiums in 2014 decreased from 2013.

Middle Market. Net written premiums of $6.33 billion in 2015 increased by 4% over 2014. Business retention rates in 2015 remained strong and were higher than in 2014. Renewal premium changes remained positive in 2015 but were lower than in 2014. New business premiums in 2015

Table of Contents

increased over 2014. Net written premiums of $6.11 billion in 2014 increased by 4% over 2013. Business retention rates in 2014 remained strong and were higher than in 2013. Renewal premium changes in 2014 remained positive but were lower than in 2013. New business premiums in 2014 increased over 2013.

National Accounts. Net written premiums of $1.05 billion in 2015 were comparable to 2014. Business retention rates remained strong in 2015 and were higher than in 2014. Renewal premium changes in 2015 remained positive but were slightly lower than in 2014. New business premiums in 2015 increased over 2014. Net written premiums from the workers' compensation residual market pools in 2015 were lower than in 2014. Net written premiums of $1.05 billion in 2014 increased by 4% over 2013. Business retention rates in 2014 remained strong but were lower than in 2013. Renewal premium changes in 2014 remained positive but were slightly lower than in 2013. New business premiums in 2014 decreased from 2013. Workers' compensation residual market pools also contributed to premium growth in 2014.

First Party. Net written premiums of $1.56 billion in 2015 decreased by 1% from 2014. Business retention rates in 2015 remained strong and were higher than in 2014. Renewal premium changes in 2015 were negative, compared with positive renewal premium changes in 2014. New business premiums in 2015 decreased from 2014. Net written premiums of $1.58 billion in 2014 increased by 2% over 2013, primarily due to lower reinsurance costs. Business retention rates in 2014 remained strong but were slightly lower than in 2013. Renewal premium changes in 2014 remained positive but were lower than in 2013, primarily due to lower renewal rate changes. New business premiums in 2014 decreased from 2013.

Specialized Distribution. Net written premiums of $1.11 billion in 2015 increased by 3% over 2014. Business retention rates remained strong in 2015 and were higher than in 2014. Renewal premium changes remained positive in 2015 but were lower than in 2014. New business premiums in 2015 increased over 2014. Net written premiums of $1.07 billion in 2014 decreased by 1% from 2013, primarily driven by premium decreases in National Programs. Business retention rates in 2014 remained strong and were higher than in 2013. Renewal premium changes in 2014 remained positive but were lower than in 2013, primarily due to lower renewal rate changes. New business premiums in 2014 decreased from 2013.

International. Net written premiums of $1.82 billion in 2015 decreased by 14% from 2014, primarily due to changes in foreign currency exchange rates. Excluding the surety line of business, for which the following are not relevant measures, business retention rates in 2015 remained strong but were slightly lower than in 2014. Renewal premium changes in 2015 were slightly negative, compared with positive renewal premium changes in 2014. New business premiums in 2015 decreased from 2014. Net written premiums of $2.12 billion in 2014 increased by 66% over 2013, primarily reflecting the impact of the acquisition of Dominion. Excluding the surety line of business, business retention rates in 2014 remained strong and were higher than in 2013. Renewal premium changes in 2014 remained positive but were slightly lower than in 2013. New business premiums in 2014 increased over 2013, reflecting the impact of the acquisition of Dominion.

Table of Contents

Bond & Specialty Insurance

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

(for the year ended December 31, in millions)	2015	2014	2013
Revenues:			
Earned premiums	**$ 2,085**	$ 2,076	$ 1,981
Net investment income	**223**	252	260
Other revenues	**22**	19	20
Total revenues	**$ 2,330**	$ 2,347	$ 2,261
Total claims and expenses	**$ 1,425**	$ 1,272	$ 1,461
Operating income	**$ 633**	$ 727	$ 573
Loss and loss adjustment expense ratio	**30.4%**	22.8%	34.7%
Underwriting expense ratio	**37.5**	38.0	38.7
Combined ratio	**67.9%**	60.8%	73.4%

Overview

Operating income in 2015 was $633 million, $94 million or 13% lower than operating income of $727 million in 2014. The decrease primarily reflected the pretax impacts of (i) lower net favorable prior year reserve development and (ii) lower net investment income, partially offset by (iii) higher underlying underwriting margins. Net favorable prior year reserve development in 2015 and 2014 was $258 million and $450 million, respectively. Catastrophe losses in 2015 and 2014 were $3 million and $6 million, respectively. The higher underlying underwriting margins primarily resulted from lower loss estimates in certain management liability businesses. Partially offsetting this net pretax decrease in operating income was a related decrease in income tax expense. In addition, income tax expense in 2015 was reduced by $16 million as a result of the resolution of prior year tax matters.

Operating income in 2014 was $727 million, $154 million or 27% higher than operating income of $573 million in 2013. The increase primarily reflected the pretax impacts of (i) higher net favorable prior year reserve development and (ii) higher underlying underwriting margins, partially offset by (iii) lower net investment income. Net favorable prior year reserve development in 2014 and 2013 was $450 million and $232 million, respectively. Catastrophe losses in 2014 and 2013 were $6 million and $8 million, respectively. The higher underlying underwriting margins primarily reflected the pretax impact of lower reinsurance costs. Partially offsetting this net pretax increase in operating income was a related increase in income tax expense. In addition, income tax expense in 2013 was reduced by $15 million as a result of the resolution of prior year tax matters.

Revenues

Earned Premiums

Earned premiums of $2.09 billion in 2015 were comparable to 2014. Earned premiums in 2014 were $2.08 billion, $95 million or 5% higher than in 2013, primarily reflecting the impact of lower reinsurance costs.

Net Investment Income

Net investment income in 2015 was $223 million, $29 million or 12% lower than in 2014. Net investment income in 2014 was $252 million, $8 million or 3% lower than in 2013. Included in the Bond & Specialty Insurance segment are certain legal entities whose invested assets and related net

Table of Contents

investment income are reported exclusively in this segment and not allocated among all business segments. As a result, reported net investment income in the Bond & Specialty Insurance segment reflects a significantly smaller proportion of allocated net investment income, including that from the Company's non-fixed maturity investments that experienced a decrease in investment income in 2015 and an increase in investment income in 2014. Refer to the "Net Investment Income" section of the "Consolidated Results of Operations" discussion herein for a description of the factors contributing to the changes in the Company's consolidated net investment income in 2015 and 2014 compared with the respective prior years. In addition, refer to note 2 of notes to the consolidated financial statements herein for a discussion of the Company's net investment income allocation methodology.

Claims and Expenses

Claims and Claim Adjustment Expenses

Claims and claim adjustment expenses in 2015 were $643 million, $162 million or 34% higher than in 2014, primarily reflecting (i) lower net favorable prior year reserve development, partially offset by (ii) lower loss estimates in certain management liability businesses. Claims and claim adjustment expenses in 2014 were $481 million, $214 million or 31% lower than in 2013, primarily reflecting the impact of higher net favorable prior year reserve development. Factors contributing to net favorable prior year reserve development during the years ended December 31, 2015, 2014 and 2013 are discussed in more detail in note 7 of notes to the consolidated financial statements herein.

Amortization of Deferred Acquisition Costs

Amortization of deferred acquisition costs in 2015 was $393 million, $5 million or 1% higher than in 2014. Amortization of deferred acquisition costs in 2014 was $388 million, $10 million or 3% higher than in 2013. The increases in both years were generally consistent with the changes in earned premiums.

General and Administrative Expenses

General and administrative expenses in 2015 were $389 million, $14 million or 3% lower than in 2014, primarily reflecting the impact of certain customer-related intangible assets becoming fully amortized during the second quarter of 2015. General and administrative expenses in 2014 were $403 million, $15 million or 4% higher than in 2013, primarily reflecting the impact of higher employee and technology related expenses.

Income Tax Expense

Income tax expense in 2015 was $272 million, $76 million or 22% lower than in 2014, primarily reflecting the $170 million decrease in income before income taxes and the $16 million reduction in income tax expense in 2015 resulting from the resolution of prior year tax matters. Income tax expense in 2014 was $348 million, $121 million or 53% higher than in 2013, primarily reflecting the $275 million increase in income before income taxes, as well as a $15 million reduction in income tax expenses in 2013 resulting from the resolution of prior year tax matters.

Combined Ratio

The combined ratio of 67.9% in 2015 was 7.1 points higher than the combined ratio of 60.8% in 2014.

Table of Contents

The loss and loss adjustment expense ratio of 30.4% in 2015 was 7.6 points higher than the 2014 ratio of 22.8%. Net favorable prior year reserve development in 2015 and 2014 provided 12.4 points and 21.7 points of benefit, respectively, to the loss and loss adjustment expense ratio. Catastrophe losses in 2015 and 2014 accounted for 0.2 points and 0.3 points of the loss and loss adjustment expense ratio, respectively. The 2015 underlying loss and loss adjustment expense ratio was 1.6 points lower than the 2014 ratio on the same basis, primarily reflecting lower loss estimates in certain management liability businesses.

The underwriting expense ratio of 37.5% in 2015 was 0.5 points lower than the underwriting expense ratio of 38.0% in 2014, primarily reflecting the impact of lower general and administrative expenses discussed above.

The combined ratio of 60.8% in 2014 was 12.6 points lower than the combined ratio of 73.4% in 2013.

The loss and loss adjustment expense ratio of 22.8% in 2014 was 11.9 points lower than the loss and loss adjustment expense ratio of 34.7% in 2013. Net favorable prior year reserve development in 2014 and 2013 provided 21.7 points and 11.7 points of benefit, respectively, to the loss and loss adjustment expense ratio. Catastrophe losses in 2014 and 2013 accounted for 0.3 points and 0.4 points, respectively, of the loss and loss adjustment expense ratio. The underlying loss and loss adjustment expense ratio in 2014 was 1.8 points lower than the 2013 ratio on the same basis, primarily reflecting the impact of increases in earned premiums largely due to lower reinsurance costs.

The underwriting expense ratio of 38.0% in 2014 was 0.7 points lower than the underwriting expense ratio of 38.7% in 2013. The improvement in 2014 primarily reflected the impact of increases in earned premiums largely due to lower reinsurance costs.

Written Premiums

Bond & Specialty Insurance gross and net written premiums were as follows:

	Gross Written Premiums		
(for the year ended December 31, in millions)	**2015**	**2014**	**2013**
Total Bond & Specialty Insurance	**$ 2,153**	$ 2,165	$ 2,131

	Net Written Premiums		
(for the year ended December 31, in millions)	**2015**	**2014**	**2013**
Total Bond & Specialty Insurance	**$ 2,081**	$ 2,103	$ 2,030

Gross written premiums in 2015 decreased by 1% from 2014. Gross written premiums in 2014 increased by 2% over 2013.

Net written premiums in 2015 were $2.08 billion, $22 million or 1% lower than in 2014. Excluding the surety line of business, for which the following are not relevant measures, business retention rates in 2015 remained strong and were higher than in 2014. Renewal premium changes in 2015 remained positive but were lower than in 2014. New business premiums in 2015 increased over 2014.

Net written premiums in 2014 were $2.10 billion, $73 million or 4% higher than in 2013, primarily driven by lower reinsurance costs that resulted from the Company's decision to eliminate a management liability excess-of-loss reinsurance treaty and higher contract surety premium volume. Excluding the surety line of business, for which the following are not relevant measures, business retention rates in 2014 remained strong and were slightly higher than in 2013. Renewal premium changes in 2014 remained positive, although lower than in 2013, driven by renewal rate changes. New business premiums in 2014 decreased from 2013.

Table of Contents

Personal Insurance

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

(for the year ended December 31, in millions)	2015	2014	2013
Revenues:			
Earned premiums	**$ 7,268**	$ 7,125	$ 7,324
Net investment income	**332**	379	369
Other revenues	**48**	80	103
Total revenues	**$ 7,648**	$ 7,584	$ 7,796
Total claims and expenses	**$ 6,357**	$ 6,394	$ 6,592
Operating income	**$ 889**	$ 824	$ 838
Loss and loss adjustment expense ratio	**58.1%**	59.6%	59.1%
Underwriting expense ratio	**28.5**	29.1	29.8
Combined ratio	**86.6%**	88.7%	88.9%
Incremental impact of direct to consumer initiative on combined ratio	**1.8%**	1.7%	1.8%

Overview

Operating income in 2015 was $889 million, $65 million or 8% higher than operating income of $824 million in 2014. The increase primarily reflected the pretax impacts of (i) higher net favorable prior year reserve development and (ii) lower catastrophe losses, partially offset by (iii) lower net investment income and (iv) a decline in other revenues. Net favorable prior year reserve development in 2015 was $278 million, compared with $169 million in 2014. Catastrophe losses in 2015 were $264 million, compared with $336 million in 2014. Partially offsetting this net pretax increase in operating income was a related increase in income tax expense. Income tax expense in 2015 was reduced by $4 million as a result of the resolution of prior year tax matters in the second quarter of 2015.

Operating income in 2014 was $824 million, $14 million or 2% lower than operating income of $838 million in 2013. The decrease primarily reflected the pretax impacts of (i) an increase in catastrophe losses, (ii) lower net favorable prior year reserve development and (iii) a decline in other revenues, partially offset by (iv) higher underlying underwriting margins and (v) higher net investment income. Catastrophe losses in 2014 and 2013 were $336 million and $250 million, respectively. Net favorable prior year reserve development in 2014 and 2013 was $169 million and $209 million, respectively. The higher underlying underwriting margins primarily reflected (i) earned pricing that exceeded loss cost trends and (ii) the benefit of the Company's previously announced expense reduction initiatives, partially offset by (iii) the impact of a higher mix of new business versus renewal business. Income tax expense in 2014 was comparable to 2013.

Revenues

Earned Premiums

Earned premiums in 2015 were $7.27 billion, $143 million or 2% higher than in 2014. Earned premiums in 2014 were $7.13 billion, $199 million or 3% lower than in 2013. The changes in earned premiums in 2015 and 2014 reflected changes in net written premiums over the respective preceding twelve months.

Table of Contents

Net Investment Income

Net investment income in 2015 was $332 million, $47 million or 12% lower than in 2014. Net investment income in 2014 was $379 million, $10 million or 3% higher than in 2013. Refer to the "Net Investment Income" section of "Consolidated Results of Operations" herein for a discussion of the changes in the Company's net investment income in 2015 and 2014 as compared with the respective prior year. In addition, refer to note 2 of notes to the consolidated financial statements herein for a discussion of the Company's net investment income allocation methodology.

Other Revenues

Other revenues in all years presented included installment premium charges. Other revenues in 2014 and 2013 also included revenues associated with the runoff of the Company's National Flood Insurance Program (NFIP) business that was sold on a renewal rights basis in 2013. Other revenues in 2013 also included a $20 million gain from the sale of those NFIP renewal rights. The Company was a participant in the NFIP Write Your Own Program administered by the Federal Emergency Management Agency (FEMA) and the Federal Insurance & Mitigation Administration.

Claims and Expenses

Claims and Claim Adjustment Expenses

Claims and claim adjustment expenses of $4.22 billion in 2015 were comparable to 2014, primarily reflecting (i) higher net favorable prior year reserve development and (ii) lower catastrophe losses, largely offset by (iii) the impact of loss cost trends and (iv) higher volumes of insured exposures. Claims and claim adjustment expenses in 2014 were $4.24 billion, $83 million or 2% lower than in 2013, primarily reflecting (i) the impact of lower volumes of insured exposures and (ii) the benefit of the Company's previously announced expense reduction initiatives on claim adjustment expenses, partially offset by (iii) higher catastrophe losses, (iv) the impact of loss cost trends and (v) lower net favorable prior year reserve development. Factors contributing to net favorable prior year reserve development during the years ended December 31, 2015, 2014 and 2013 are discussed in more detail in note 7 of notes to the consolidated financial statements.

Amortization of Deferred Acquisition Costs

Amortization of deferred acquisition costs in 2015 was $1.16 billion, $10 million or 1% lower than in 2014. Amortization of deferred acquisition costs in 2014 was $1.17 billion, $112 million or 9% lower than in 2013. The decrease in 2014 primarily reflected a decline in commission expense due to lower commission rates, as well as a decline in earned premiums compared with 2013.

General and Administrative Expenses

General and administrative expenses of $973 million in 2015 and $977 million in 2014 were comparable to the respective prior year amounts.

Income Tax Expense

Income tax expense in 2015 was $402 million, $36 million or 10% higher than in 2014, primarily reflecting the $101 million increase in income before income taxes, partially offset by the $4 million reduction in income tax expense resulting from the resolution of prior year tax matters in 2015. Income tax expense of $366 million in 2014 was comparable to 2013, as the tax effect of the $14 million decrease in income before income taxes was offset by the impact of a $5 million reduction in income tax expense in 2013 resulting from the resolution of prior year tax matters.

Table of Contents

Combined Ratio

The combined ratio of 86.6% in 2015 was 2.1 points lower than the combined ratio of 88.7% in 2014.

The loss and loss adjustment expense ratio of 58.1% in 2015 was 1.5 points lower than the 2014 ratio of 59.6%. Catastrophe losses accounted for 3.6 points and 4.7 points of the 2015 and 2014 loss and loss adjustment expense ratio, respectively. Net favorable prior year reserve development in 2015 and 2014 provided 3.8 points and 2.4 points of benefit to the loss and loss adjustment expense ratio, respectively. The 2015 underlying loss and loss adjustment expense ratio was 1.0 point higher than the 2014 ratio on the same basis, primarily reflecting the impact of a higher mix of new business versus renewal business, as well as a higher mix of automobile business versus homeowners and other business.

The underwriting expense ratio of 28.5% in 2015 was 0.6 points lower than the underwriting expense ratio of 29.1% in 2014, primarily reflecting lower commission expenses.

The combined ratio of 88.7% in 2014 was 0.2 points lower than the combined ratio of 88.9% in 2013.

The loss and loss adjustment expense ratio of 59.6% in 2014 was 0.5 points higher than the loss and loss adjustment expense ratio of 59.1% in 2013. Catastrophe losses accounted for 4.7 points and 3.4 points of the 2014 and 2013 loss and loss adjustment expense ratios, respectively. Net favorable prior year reserve development in 2014 and 2013 provided 2.4 points and 2.8 points of benefit, respectively, to the loss and loss adjustment expense ratio. The 2014 underlying loss and loss adjustment expense ratio was 1.2 points lower than the 2013 ratio on the same basis, primarily reflecting (i) earned pricing that exceeded loss cost trends and (ii) the benefit of the Company's previously announced expense reduction initiatives, partially offset by (iii) the impact of a higher mix of new business versus renewal business.

The underwriting expense ratio of 29.1% in 2014 was 0.7 points lower than the underwriting expense ratio of 29.8% in 2013. The decrease in 2014 primarily reflected (i) lower homeowners' commission rates and (ii) the benefit of the Company's expense reduction initiatives, partially offset by (iii) higher underwriting expenses resulting from higher new business levels and (iv) a decrease in earned premiums.

Agency Written Premiums

Gross and net written premiums by product line were as follows for the Personal Insurance segment's Agency business, which comprises business written through agents, brokers and other intermediaries and represents almost all of the segment's gross and net written premiums:

	Gross Written Premiums		
(for the year ended December 31, in millions)	**2015**	**2014**	**2013**
Agency Automobile	**$ 3,551**	$ 3,278	$ 3,277
Agency Homeowners and Other	**3,773**	3,800	4,094
Total Agency Personal Insurance	**$ 7,324**	$ 7,078	$ 7,371

	Net Written Premiums		
(for the year ended December 31, in millions)	**2015**	**2014**	**2013**
Agency Automobile	**$ 3,534**	$ 3,260	$ 3,258
Agency Homeowners and Other	**3,687**	3,718	3,805
Total Agency Personal Insurance	**$ 7,221**	$ 6,978	$ 7,063

Table of Contents

In 2015, gross and net Agency written premiums were both 3% higher than in 2014. In 2014, gross and net Agency written premiums were 4% and 1% lower, respectively, than in 2013. The higher rate of decrease in gross written premiums in 2014 was primarily driven by the impact of the sale of the Company's NFIP business in 2013 described above.

In 2015, net written premiums in the Agency Automobile line of business were 8% higher than in 2014. Business retention rates in 2015 remained strong and were higher than in 2014. Renewal premium changes in 2015 remained positive but were lower than in 2014. New business premiums in 2015 increased over 2014 driven by sales of the Company's private passenger automobile product, Quantum Auto 2.0. In 2014, net written premiums in the Agency Automobile line of business were slightly higher than in 2013. Business retention rates remained strong in 2014 and were higher than in 2013. Renewal premium changes in 2014 remained positive but were lower than in 2013. New business premiums in 2014 were significantly higher than in 2013 as a result of Quantum Auto 2.0.

In 2015, net written premiums in the Agency Homeowners and Other line of business were 1% lower than in 2014. Business retention rates in 2015 remained strong and were higher than in 2014. Renewal premium changes in 2015 remained positive but were lower than in 2014. New business premiums in 2015 increased over 2014. In 2014, net written premiums in the Agency Homeowners and Other line of business were 2% lower than 2013. Business retention rates remained strong in 2014 and were higher than in 2013. Renewal premium changes in 2014 remained positive but were lower than in 2013. New business premiums in 2014 were higher than in 2013.

For its Agency business, the Personal Insurance segment had approximately 6.2 million and 6.0 million active policies at December 31, 2015 and 2014, respectively.

Direct to Consumer Written Premiums

In the direct to consumer business, net written premiums in 2015 were $236 million, $49 million or 26% higher than in 2014. In 2015, automobile net written premiums increased by $36 million or 28% over 2014, and homeowners and other net written premiums increased by $13 million or 23% over 2014. Net written premiums in 2014 were $187 million, $25 million or 15% higher than in 2013. In 2014, automobile net written premiums increased by $18 million or 16% over 2013, and homeowners and other net written premiums increased by $7 million or 14% over 2013. The direct to consumer business had 242,000 and 193,000 active policies at December 31, 2015 and 2014, respectively.

Interest Expense and Other

(for the year ended December 31, in millions)	2015	2014	2013
Operating loss	**$ (255)**	$ (257)	$ (248)

The operating loss in 2015 was $2 million lower than in 2014. The operating loss in 2014 was $9 million higher than in 2013. After-tax interest expense in 2015, 2014 and 2013 was $242 million, $240 million and $235 million, respectively. The increase in interest expense in both 2015 and 2014 compared with the respective prior years primarily reflected slightly higher average levels of debt outstanding.

ASBESTOS CLAIMS AND LITIGATION

The Company believes that the property and casualty insurance industry has suffered from court decisions and other trends that have expanded insurance coverage for asbestos claims far beyond the original intent of insurers and policyholders. The Company has received and continues to receive a significant number of asbestos claims from the Company's policyholders (which includes others seeking coverage under a policy). Factors underlying these claim filings include continued intensive advertising by lawyers seeking asbestos claimants and the continued focus by plaintiffs on defendants who were not traditionally primary targets of asbestos litigation. The focus on these defendants is primarily the result of the number of traditional asbestos defendants who have sought bankruptcy protection in previous years. In addition to contributing to the overall number of claims, bankruptcy proceedings may increase the volatility of asbestos-related losses by initially delaying the reporting of claims and later by significantly accelerating and increasing loss payments by insurers, including the Company. The bankruptcy of many traditional defendants has also caused increased settlement demands against those policyholders who are not in bankruptcy but remain in the tort system. Currently, in many jurisdictions, those who allege very serious injury and who can present credible medical evidence of their injuries are receiving priority trial settings in the courts, while those who have not shown any credible disease manifestation are having their hearing dates delayed or placed on an inactive docket. Prioritizing claims involving credible evidence of injuries, along with the focus on defendants who were not traditionally primary targets of asbestos litigation, contributes to the claims and claim adjustment expense payment patterns experienced by the Company. The Company's asbestos-related claims and claim adjustment expense experience also has been impacted by the unavailability of other insurance sources potentially available to policyholders, whether through exhaustion of policy limits or through the insolvency of other participating insurers.

The Company continues to be involved in coverage litigation concerning a number of policyholders, some of whom have filed for bankruptcy, who in some instances have asserted that all or a portion of their asbestos-related claims are not subject to aggregate limits on coverage. In these instances, policyholders also may assert that each individual bodily injury claim should be treated as a separate occurrence under the policy. It is difficult to predict whether these policyholders will be successful on both issues. To the extent both issues are resolved in a policyholder's favor and other Company defenses are not successful, the Company's coverage obligations under the policies at issue would be materially increased and bounded only by the applicable per-occurrence limits and the number of asbestos bodily injury claims against the policyholders. Although the Company has seen a moderation in the overall risk associated with these lawsuits, it remains difficult to predict the ultimate cost of these claims.

Many coverage disputes with policyholders are only resolved through settlement agreements. Because many policyholders make exaggerated demands, it is difficult to predict the outcome of settlement negotiations. Settlements involving bankrupt policyholders may include extensive releases which are favorable to the Company but which could result in settlements for larger amounts than originally anticipated. There also may be instances where a court may not approve a proposed settlement, which may result in additional litigation and potentially less beneficial outcomes for the Company. As in the past, the Company will continue to pursue settlement opportunities.

In addition to claims against policyholders, proceedings have been launched directly against insurers, including the Company, by individuals challenging insurers' conduct with respect to the handling of past asbestos claims and by individuals seeking damages arising from alleged asbestos-related bodily injuries. Travelers Property Casualty Corp. (TPC) had previously entered into settlement agreements in connection with a number of these direct action claims (Direct Action Settlements). The Company had been involved in litigation concerning whether all of the conditions of the Direct Action Settlements had been satisfied. On July 22, 2014, the United States Court of Appeals for the Second Circuit ruled that all of the conditions of the Direct Action Settlements had been satisfied. On January 15, 2015, the bankruptcy court entered an order directing the Company to pay $579 million to the plaintiffs, comprised of the $502 million settlement amounts, plus pre- and post-judgment interest of $77 million, and the Company made that payment in 2015. For a full discussion of these settlement agreements and related litigation, see the "Settlement of Asbestos Direct Action Litigation" section of note 16 of notes to the consolidated financial statements herein. It is possible that the filing of other direct actions against insurers, including the Company, could be made in the future. It is difficult to

Table of Contents

predict the outcome of these proceedings, including whether the plaintiffs will be able to sustain these actions against insurers based on novel legal theories of liability. The Company believes it has meritorious defenses to these claims and has received favorable rulings in certain jurisdictions.

Because each policyholder presents different liability and coverage issues, the Company generally reviews the exposure presented by each policyholder at least annually. Among the factors which the Company may consider in the course of this review are: available insurance coverage, including the role of any umbrella or excess insurance the Company has issued to the policyholder; limits and deductibles; an analysis of the policyholder's potential liability; the jurisdictions involved; past and anticipated future claim activity and loss development on pending claims; past settlement values of similar claims; allocated claim adjustment expense; potential role of other insurance; the role, if any, of non-asbestos claims or potential non-asbestos claims in any resolution process; and applicable coverage defenses or determinations, if any, including the determination as to whether or not an asbestos claim is a products/completed operation claim subject to an aggregate limit and the available coverage, if any, for that claim.

In the third quarter of 2015, the Company completed its annual in-depth asbestos claim review, including a review of active policyholders and litigation cases for potential product and "non-product" liability, and noted the continuation of the following trends:

- continued high level of litigation activity in certain jurisdictions involving individuals alleging serious asbestos-related illness, primarily involving mesothelioma claims;

- while overall payment patterns have been generally stable, there has been an increase in severity for certain policyholders due to the continued high level of litigation activity; and

- continued moderate level of asbestos-related bankruptcy activity.

While the Company believes that over the past several years there has been a reduction in the volatility associated with the Company's overall asbestos exposure, there nonetheless remains a high degree of uncertainty with respect to future exposure from asbestos claims.

In the Home Office and Field Office category, which accounts for the vast majority of policyholders with active asbestos-related claims, both the number of policyholders tendering asbestos claims for the first time and the number of policyholders with open asbestos claims declined when compared with 2014. Gross asbestos payments in this category were essentially unchanged when compared with 2014, while net asbestos-related payments increased in 2015 due to significant reinsurance billings relating to one policyholder in 2014. Payments on behalf of policyholders in this category continue to be influenced by the high level of litigation activity in a limited number of jurisdictions where individuals alleging serious asbestos-related injury, primarily mesothelioma, continue to target defendants who were not traditionally primary targets of asbestos litigation.

The Company's quarterly asbestos reserve reviews include an analysis of exposure and claim payment patterns by policyholder category, as well as recent settlements, policyholder bankruptcies, judicial rulings and legislative actions. The Company also analyzes developing payment patterns among policyholders in the Home Office and Field Office, and Assumed Reinsurance and Other categories as well as projected reinsurance billings and recoveries. In addition, the Company reviews its historical gross and net loss and expense paid experience, year-by-year, to assess any emerging trends, fluctuations, or characteristics suggested by the aggregate paid activity. Conventional actuarial methods are not utilized to establish asbestos reserves nor have the Company's evaluations resulted in any way of determining a meaningful average asbestos defense or indemnity payment.

The completion of these reviews and analyses in 2015, 2014 and 2013 resulted in $224 million, $250 million and $190 million increases, respectively, in the Company's net asbestos reserves. In each year, the reserve increases were primarily driven by increases in the Company's estimate of projected settlement and defense costs related to a broad number of policyholders in the Home Office category due to a higher level of litigation activity surrounding mesothelioma claims than previously anticipated. In addition, the reserve increase in 2013 also reflected higher projected payments on assumed reinsurance accounts. The increase in the estimate of projected settlement and defense costs resulted from payment trends that continue to be higher than previously anticipated due to the impact of the current litigation environment discussed above. Notwithstanding these trends, the Company's overall view of the underlying asbestos environment is essentially unchanged from recent periods and there remains a high degree of uncertainty with respect to future exposure to asbestos claims.

Net asbestos paid loss and loss expenses in 2015, 2014 and 2013 were $770 million, $242 million and $218 million, respectively. Net payments in 2015 included the payment of the $502 million settlement amounts related to the Settlement of Asbestos Direct Action Litigation as described in more detail in note 16 of notes to the consolidated financial statements herein. Approximately 69%, 8% and 1% of total net paid losses in 2015, 2014 and 2013, respectively, related to policyholders with whom the Company had entered into settlement agreements limiting the Company's liability.

The Company categorizes its asbestos reserves as follows:

	Number of Policyholders		Total Net Paid		Net Asbestos Reserves	
(at and for the year ended December 31, $ in millions)	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Policyholders with settlement agreements	**18**	17	**$ 532**	$ 19	**$ 554**	$ 613
Home office and field office	**1,624**	1,692	**220**	197	**1,101**	1,574
Assumed reinsurance and other			**18**	26	**155**	170
Total	**1,642**	1,709	**$ 770**	$ 242	**$ 1,810**	$ 2,357

The Policyholders with Settlement Agreements category includes structured settlements, coverage in place arrangements and, with respect to TPC, Wellington accounts. Reserves are based on the expected payout for each policyholder under the applicable agreement. Structured settlements are arrangements under which policyholders and/or plaintiffs agree to fixed financial amounts to be paid at scheduled times. Coverage in place arrangements represent agreements with policyholders on specified amounts of coverage to be provided. Payment obligations may be subject to annual maximums and are only made when valid claims are presented. Wellington accounts refer to the 35 defendants that are parties to a 1985 agreement settling certain disputes concerning insurance coverage for their asbestos claims. Many of the aspects of the Wellington agreement are similar to those of coverage in place arrangements in which the parties have agreed on specific amounts of coverage and the terms under which the coverage can be accessed. As discussed above, in 2015 the Company paid a $502 million settlement related to the asbestos direct action litigation. That amount had been included in the Policyholders with Settlement Agreements category in the foregoing table at December 31, 2014.

On January 29, 2009, the Company and PPG Industries, Inc ("PPG"), along with approximately 30 other insurers of PPG, agreed in principle to an agreement to settle asbestos-related coverage litigation under insurance policies issued to PPG. The tentative settlement agreement has been incorporated into the Modified Third Amended Plan of Reorganization ("Amended Plan") proposed as part of the Pittsburgh Corning Corp. ("PCC," which is 50% owned by PPG) bankruptcy proceeding. Pursuant to the proposed Amended Plan, which was filed on January 30, 2009, PCC, along with enumerated other companies (including PPG as well as the Company as a participating insurer), are to receive protections afforded by Section 524(g) of the Bankruptcy Code from certain asbestos-related bodily injury claims. Under the agreement in principle, the Company has the option to make a series of payments over 20 years totaling approximately $620 million to the Trust to be created under the Amended Plan, or it may elect to make a one-time discounted payment, which, as of June 30, 2016, would total approximately $525 million. On January 7, 2016, the final objections to the Amended Plan were

Table of Contents

dismissed. The agreement in principle with PPG is still subject to several conditions. Given the resolution of the objections to the Amended Plan the Company believes that the conditions will be satisfied and accordingly, the Company's obligations under this agreement in principle are included in the Policyholders with Settlement Agreements category at December 31, 2015. At December 31, 2014 those obligations were included in the Home Office and Field Office category described below.

The Home Office and Field Office category relates to all other policyholders and also includes IBNR reserves and reserves for the costs of defending asbestos-related coverage litigation. IBNR reserves in the Home Office and Field Office category include amounts for new claims from and adverse development on existing Home Office and Field Office policyholders, as well as reserves for claims from policyholders reporting asbestos claims for the first time and for policyholders for which there is, or may be, litigation. Policyholders are identified for the annual home office review based upon, among other factors: a combination of past payments and current case reserves in excess of a specified threshold (currently $100,000), perceived level of exposure, number of reported claims, products/completed operations and potential "non-product" exposures, size of policyholder and geographic distribution of products or services sold by the policyholder. The Assumed Reinsurance and Other category primarily consists of reinsurance of excess coverage, including various pool participations.

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

(at and for the year ended December 31, in millions)	2015	2014	2013
Beginning reserves:			
Gross	**$ 2,520**	$ 2,606	$ 2,689
Ceded	**(163)**	(256)	(311)
Net	**2,357**	2,350	2,378
Incurred losses and loss expenses:			
Gross	**313**	258	190
Ceded	**(89)**	(8)	
Net	**224**	250	190
Paid loss and loss expenses:			
Gross	**843**	343	273
Ceded	**(73)**	(101)	(55)
Net	**770**	242	218
Foreign exchange and other:			
Gross	**(1)**	(1)	
Ceded			
Net	**(1)**	(1)	
Ending reserves:			
Gross	**1,989**	2,520	2,606
Ceded	**(179)**	(163)	(256)
Net	**$ 1,810**	$ 2,357	$ 2,350

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

ENVIRONMENTAL CLAIMS AND LITIGATION

The Company has received and continues to receive claims from policyholders who allege that they are liable for injury or damage arising out of their alleged disposition of toxic substances. Mostly, these

Table of Contents

claims are due to various legislative as well as regulatory efforts aimed at environmental remediation. For instance, the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), enacted in 1980 and later modified, enables private parties as well as federal and state governments to take action with respect to releases and threatened releases of hazardous substances. This federal statute permits the recovery of response costs from some liable parties and may require liable parties to undertake their own remedial action. Liability under CERCLA may be joint and several with other responsible parties.

The Company has been, and continues to be, involved in litigation involving insurance coverage issues pertaining to environmental claims. The Company believes that some court decisions have interpreted the insurance coverage to be broader than the original intent of the insurers and policyholders. These decisions often pertain to insurance policies that were issued by the Company prior to the mid-1980s. These decisions continue to be inconsistent and vary from jurisdiction to jurisdiction. Environmental claims, when submitted, rarely indicate the monetary amount being sought by the claimant from the policyholder, and the Company does not keep track of the monetary amount being sought in those few claims which indicate a monetary amount.

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

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

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

Table of Contents

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

The Company continues to receive notices from policyholders tendering claims for the first time, frequently under policies issued prior to the mid-1980s. These policyholders continue to present smaller exposures, have fewer sites and are lower tier defendants. Further, in many instances, clean-up costs have been reduced because regulatory agencies are willing to accept risk-based site analyses and more efficient clean-up technologies. Over the past several years, the Company has experienced generally favorable trends in the number of new policyholders tendering environmental claims for the first time and in the number of pending declaratory judgment actions relating to environmental matters. However, the degree to which those favorable trends have continued has been less than anticipated. In addition, reserve development on existing environmental claims has been greater than anticipated. As a result of these factors, in 2015, 2014 and 2013, the Company increased its net environmental reserves by $72 million, $87 million and $65 million, respectively.

Net environmental paid loss and loss expenses were $55 million, $84 million and $84 million in 2015, 2014 and 2013, respectively. At December 31, 2015, approximately 93% of the net environmental reserve (approximately $335 million) was carried in a bulk reserve and included unresolved environmental claims, incurred but not reported environmental claims and the anticipated cost of coverage litigation disputes relating to these claims. The bulk reserve the Company carries is established and adjusted based upon the aggregate volume of in-process environmental claims and the Company's experience in resolving those claims. The balance, approximately 7% of the net environmental reserve (approximately $26 million), consists of case reserves.

Table of Contents

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

(at and for the year ended December 31, in millions)	2015	2014	2013
Beginning reserves:			
Gross	**$ 353**	$ 355	$ 352
Ceded	**(7)**	(11)	(5)
Net	**346**	344	347
Incurred losses and loss expenses:			
Gross	**81**	94	72
Ceded	**(9)**	(7)	(7)
Net	**72**	87	65
Paid loss and loss expenses:			
Gross	**56**	95	87
Ceded	**(1)**	(11)	(3)
Net	**55**	84	84
Acquired reserves, foreign exchange and other:(1)			
Gross	**(3)**	(1)	18
Ceded	**1**		(2)
Net	**(2)**	(1)	16
Ending reserves:			
Gross	**375**	353	355
Ceded	**(14)**	(7)	(11)
Net	**$ 361**	$ 346	$ 344

(1) Amounts in 2013 represent acquired reserves of Dominion at November 1, 2013.

UNCERTAINTY REGARDING ADEQUACY OF ASBESTOS AND ENVIRONMENTAL RESERVES

As a result of the processes and procedures discussed above, management believes that the reserves carried for asbestos and environmental claims are appropriately established based upon known facts, current law and management's judgment. However, the uncertainties surrounding the final resolution of these claims continue, and it is difficult to determine the ultimate exposure for asbestos and environmental claims and related litigation. As a result, these reserves are subject to revision as new information becomes available and as claims develop. The continuing uncertainties include, without limitation, the risks and lack of predictability inherent in complex litigation, any impact from the bankruptcy protection sought by various asbestos producers and other asbestos defendants, a further increase or decrease in the cost to resolve, and/or the number of, asbestos and environmental claims beyond that which is anticipated, the emergence of a greater number of asbestos claims than anticipated as a result of extended life expectancies resulting from medical advances and lifestyle improvements, the role of any umbrella or excess policies the Company has issued, the resolution or adjudication of disputes pertaining to the amount of available coverage for asbestos and environmental claims in a manner inconsistent with the Company's previous assessment of these claims, the number and outcome of direct actions against the Company, future developments pertaining to the Company's ability to recover reinsurance for asbestos and environmental claims and the unavailability of other insurance sources potentially available to policyholders, whether through exhaustion of policy limits or through the insolvency of other participating insurers. In addition, uncertainties arise from the insolvency or bankruptcy of policyholders and other defendants. It is also not possible to predict changes in the legal, regulatory and legislative environment and their impact on the future development

Table of Contents

of asbestos and environmental claims. This environment could be affected by changes in applicable legislation and future court and regulatory decisions and interpretations, including the outcome of legal challenges to legislative and/or judicial reforms establishing medical criteria for the pursuit of asbestos claims. It is also difficult to predict the ultimate outcome of complex coverage disputes until settlement negotiations near completion and significant legal questions are resolved or, failing settlement, until the dispute is adjudicated. This is particularly the case with policyholders in bankruptcy where negotiations often involve a large number of claimants and other parties and require court approval to be effective. As part of its continuing analysis of asbestos and environmental reserves, the Company continues to study the implications of these and other developments.

Because of the uncertainties set forth above, additional liabilities may arise for amounts in excess of the Company's current reserves. In addition, the Company's estimate of claims and claim adjustment expenses may change. These additional liabilities or increases in estimates, or a range of either, cannot now be reasonably estimated and could result in income statement charges that could be material to the Company's operating results in future periods.

INVESTMENT PORTFOLIO

The Company's invested assets at December 31, 2015 were $70.47 billion, of which 93% was invested in fixed maturity and short-term investments, 1% in equity securities, 1% in real estate investments and 5% in other investments. Because the primary purpose of the investment portfolio is to fund future claims payments, the Company employs a conservative investment philosophy. A significant majority of funds available for investment are deployed in a widely diversified portfolio of high quality, liquid, taxable U.S. government, tax-exempt U.S. municipal and taxable corporate and U.S. agency mortgage-backed bonds.

The carrying value of the Company's fixed maturity portfolio at December 31, 2015 was $60.66 billion. The Company closely monitors the duration of its fixed maturity investments, and investment purchases and sales are executed with the objective of having adequate funds available to satisfy the Company's insurance and debt obligations. The weighted average credit quality of the Company's fixed maturity portfolio, both including and excluding U.S. Treasury securities, was "Aa2" at both December 31, 2015 and 2014. Below investment grade securities represented 2.8% and 3.0% of the total fixed maturity investment portfolio at December 31, 2015 and 2014, respectively. The average effective duration of fixed maturities and short-term securities was 3.9 (4.2 excluding short-term securities) at December 31, 2015 and 3.5 (3.7 excluding short-term securities) at December 31, 2014.

Table of Contents

The carrying values of investments in fixed maturities classified as available for sale at December 31, 2015 and 2014 were as follows:

(at December 31, in millions)	2015 Carrying Value	2015 Average Credit Quality(1)	2014 Carrying Value	2014 Average Credit Quality(1)
U.S. Treasury securities and obligations of U.S. government and government agencies and authorities	**$ 2,194**	**Aaa/Aa1**	$ 2,053	Aaa/Aa1
Obligations of states, municipalities and political subdivisions:				
Local general obligation	**13,318**	**Aaa/Aa1**	13,005	Aaa/Aa1
Revenue	**9,960**	**Aaa/Aa1**	10,404	Aaa/Aa1
State general obligation	**2,073**	**Aa1**	2,603	Aa1
Pre-refunded	**6,060**	**Aa1**	7,561	Aa1
Total obligations of states, municipalities and political subdivisions	**31,411**		33,573	
Debt securities issued by foreign governments	**1,873**	**Aaa/Aa1**	2,368	Aaa/Aa1
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	**1,981**	**Aa3**	2,213	Aa3
All other corporate bonds and redeemable preferred stock:				
Financial:				
Bank	**2,637**	**A1**	2,567	A1
Insurance	**623**	**A1**	636	A1
Finance/leasing	**42**	**Ba2**	72	Baa2
Brokerage and asset management	**34**	**A1**	34	A1
Total financial	**3,336**		3,309	
Industrial	**14,151**	**A3**	14,180	A3
Public utility	**2,311**	**A3**	2,320	A2
Canadian municipal securities	**1,085**	**Aa1**	1,194	Aa1
Sovereign corporate securities(2)	**696**	**Aaa**	725	Aaa
Commercial mortgage-backed securities and project loans(3)	**865**	**Aaa**	715	Aaa
Asset-backed and other	**755**	**Aa2**	824	Aa3
Total all other corporate bonds and redeemable preferred stock	**23,199**		23,267	
Total fixed maturities	**$ 60,658**	**Aa2**	$ 63,474	Aa2

(1) Rated using external rating agencies or by the Company when a public rating does not exist.

(2) Sovereign corporate securities include corporate securities that are backed by a government and include sovereign banks and securities issued under the Federal Ship Financing Programs.

(3) Included in commercial mortgage-backed securities and project loans at December 31, 2015 and 2014 were $295 million and $189 million of securities guaranteed by the U.S. government, respectively, and $8 million and $13 million of securities guaranteed by government sponsored enterprises, respectively.

106

Table of Contents

The following table sets forth the Company's fixed maturity investment portfolio rated using external ratings agencies or by the Company when a public rating does not exist:

(at December 31, 2015, in millions)	Carrying Value	Percent of Total Carrying Value
Quality Rating:		
Aaa	$ 25,865	42.7%
Aa	17,226	28.4
A	8,998	14.8
Baa	6,858	11.3
Total investment grade	58,947	97.2
Below investment grade	1,711	2.8
Total fixed maturities	$ 60,658	100.0%

The amortized cost and fair value of fixed maturities by contractual maturity follow. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(at December 31, 2015, in millions)	Amortized Cost	Fair Value
Due in one year or less	$ 6,240	$ 6,324
Due after 1 year through 2 years	5,290	5,452
Due after 2 years through 3 years	4,267	4,426
Due after 3 years through 4 years	3,868	4,007
Due after 4 years through 5 years	3,316	3,411
Due after 5 years through 10 years	16,008	16,260
Due after 10 years	18,026	18,797
	57,015	58,677
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	1,863	1,981
Total	$ 58,878	$ 60,658

Obligations of States, Municipalities and Political Subdivisions

The Company's fixed maturity investment portfolio at December 31, 2015 and 2014 included $31.41 billion and $33.57 billion, respectively, of securities which are obligations of states, municipalities and political subdivisions (collectively referred to as the municipal bond portfolio). The municipal bond portfolio is diversified across the United States, the District of Columbia and Puerto Rico and includes general obligation and revenue bonds issued by states, cities, counties, school districts and similar issuers. Included in the municipal bond portfolio at December 31, 2015 and 2014 were $6.06 billion and $7.56 billion, respectively, of pre-refunded bonds, which are bonds for which states or municipalities have established irrevocable trusts, almost exclusively comprised of U.S. Treasury securities, which were created to satisfy their responsibility for payments of principal and interest. The irrevocable trusts are verified as to their sufficiency by an independent verification agent of the underwriter, issuer or trustee. All of the Company's holdings of securities issued by Puerto Rico and related entities have been pre-refunded and therefore are defeased by U.S. Treasury securities.

Table of Contents

The following table shows the geographic distribution of the $25.35 billion of municipal bonds at December 31, 2015 that were not pre-refunded.

(at December 31, 2015, in millions)	State General Obligation	Local General Obligation	Revenue	Total Carrying Value	Average Credit Quality(1)
State:					
Texas	$ 139	$ 2,519	$ 1,077	$ 3,735	Aaa/Aa1
Virginia	120	789	914	1,823	Aaa/Aa1
Washington	119	1,029	568	1,716	Aa1
California	41	790	458	1,289	Aa1
Minnesota	151	871	98	1,120	Aaa/Aa1
North Carolina	78	660	297	1,035	Aaa/Aa1
Massachusetts	45	45	858	948	Aaa/Aa1
Maryland	129	535	204	868	Aaa/Aa1
Illinois	49	525	259	833	Aa1
Colorado		567	233	800	Aa1
Georgia	133	475	144	752	Aaa/Aa1
Arizona		410	329	739	Aa1
Wisconsin	175	297	243	715	Aa1
South Carolina	36	476	166	678	Aa1
New Jersey		266	375	641	Aaa
Oregon	189	225	220	634	Aa1
All others(2)(3)	669	2,839	3,517	7,025	Aaa/Aa1
Total	$ 2,073	$ 13,318	$ 9,960	$ 25,351	Aaa/Aa1

(1) Rated using external rating agencies or by the Company when a public rating does not exist. Ratings shown are the higher of the rating of the underlying issuer or the insurer in the case of securities enhanced by third-party insurance for the payment of principal and interest in the event of issuer default.

(2) No other single state accounted for 2.5% or more of the total non-pre-refunded municipal bonds.

(3) The Company does not own any municipal securities issued by the city of Detroit, MI.

The following table displays the funding sources for the $9.96 billion of municipal bonds identified as revenue bonds in the foregoing table at December 31, 2015.

(at December 31, 2015, in millions)	Carrying Value	Average Credit Quality(1)
Source:		
Water and sewer	$ 3,722	Aaa/Aa1
Higher education	2,370	Aaa/Aa1
Power and utilities	1,001	Aa2
Transportation	928	Aa1
Special tax	670	Aa1
Lease	115	Aa3
Housing	101	Aaa/Aa1
Healthcare	39	Aa2
Property tax	12	Aa2
Other revenue sources	1,002	Aaa/Aa1

Total	**$**	**9,960**	**Aaa/Aa1**

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(1) Rated using external rating agencies or by the Company when a public rating does not exist. Ratings shown are the higher of the rating of the underlying issuer or the insurer in the case of securities enhanced by third-party insurance for the payment of principal and interest in the event of issuer default.

Table of Contents

The Company bases its investment decision on the underlying credit characteristics of the municipal security. While its municipal bond portfolio includes a number of securities that were enhanced by third-party insurance for the payment of principal and interest in the event of an issuer default, the Company does not rely on enhanced credit characteristics provided by such third-party insurance as part of its investing decisions. Of the insured municipal securities in the Company's investment portfolio at December 31, 2015, approximately 97% were rated at "A3" or above, and approximately 88% were rated at "Aa3" or above, without the benefit of insurance. The Company believes that a loss of the benefit of insurance would not result in a material adverse impact on the Company's results of operations, financial position or liquidity, due to the underlying credit strength of the issuers of the securities, as well as the Company's ability and intent to hold the securities. The average credit rating of the underlying issuers of these securities was "Aa2" at December 31, 2015. The average credit rating of the entire municipal bond portfolio was "Aa1" at December 31, 2015, with and without the enhancement provided by third-party insurance.

Debt Securities Issued by Foreign Governments

The following table shows the geographic distribution of the Company's long-term fixed maturity investments in debt securities issued by foreign governments at December 31, 2015.

(at December 31, 2015, in millions)	**Carrying Value**	**Average Credit Quality(1)**
Foreign Government:		
Canada	**$ 1,131**	**Aaa**
United Kingdom	**669**	**Aaa/Aa1**
All Others(2)(3)	**73**	**A2**
Total	**$ 1,873**	**Aaa/Aa1**

(1) Rated using external rating agencies or by the Company when a public rating does not exist.

(2) The Company does not have direct exposure to sovereign debt issued by the Republic of Ireland, Italy, Greece, Portugal or Spain.

(3) No other country accounted for 2.5% or more of total debt securities issued by foreign governments.

The following table shows the Company's Eurozone exposure at December 31, 2015 to all debt securities issued by foreign governments, financial companies, sovereign corporations (including sovereign banks) whose securities are backed by the respective country's government and all other corporate securities (comprised of industrial corporations and utility companies) which could be affected if economic conditions deteriorated due to a prolonged recession.

Table of Contents

	Debt Securities Issued by Foreign Governments		Corporate Securities					
			Financial		Sovereign Corporates		All Other	
(at December 31, 2015, in millions)	Carrying Value	Average Credit Quality(1)	Carrying Value	Average Credit Quality(1)	Carrying Value	Average Credit Quality(1)	Carrying Value	Average Credit Quality(1)
Eurozone Periphery								
Spain	$		$ 45	A3	$		$ 36	A3
Ireland							66	A3
Greece								
Italy								
Portugal								
Subtotal			45				102	
Eurozone Non-Periphery								
Germany	2	Aaa	12	A3	242	Aa1	327	A3
France	100	Aa2	11	A2	3	Aa1	396	A2
Netherlands			64	A1	107	Aa1	298	A2
Austria					2	Aaa/Aa1		
Finland	8	Aaa/Aa1			3	Aaa/Aa1		
Belgium							154	A3
Luxembourg							85	A2
Subtotal	110		87		357		1,260	
Total	$ 110		$ 132		$ 357		$ 1,362	

(1) Rated using external rating agencies or by the Company when a public rating does not exist. The table includes $379 million of short-term securities which have the highest ratings issued by external rating agencies for short-term issuances. For purposes of this table, the short-term securities, which are rated "A-1+" and/or "P-1," are included as "Aaa" rated securities.

In addition to fixed maturities noted in the foregoing table, the Company has exposure totaling $187 million to private equity limited partnerships and real estate partnerships (both of which are included in other investments in the Company's consolidated balance sheet) whose primary investing focus is across Europe. The Company has unfunded commitments totaling $129 million to these partnerships. The Company also has $5 million of non-redeemable preferred stock (included in equity securities on the Company's consolidated balance sheet) issued by companies in the Eurozone.

Mortgage-Backed Securities, Collateralized Mortgage Obligations and Pass-Through Securities

The Company's fixed maturity investment portfolio at December 31, 2015 and 2014 included $1.98 billion and $2.21 billion, respectively, of residential mortgage-backed securities, including pass-through-securities and collateralized mortgage obligations (CMOs), all of which are subject to prepayment risk (either shortening or lengthening of duration). While prepayment risk for securities and its effect on income cannot be fully controlled, particularly when interest rates move dramatically, the Company's investment strategy generally favors securities that reduce this risk within expected interest rate ranges. The Company makes investments in residential CMOs that are either guaranteed by GNMA, FNMA or FHLMC, or if not guaranteed, are senior or super-senior positions within their respective securitizations. Both guaranteed and non-guaranteed residential CMOs allocate the distribution of payments from the underlying mortgages among different classes of bondholders. In addition, non-guaranteed residential CMOs provide structures that allocate the impact of credit losses to different classes of bondholders. Senior and super-senior CMOs are protected, to varying degrees,

from credit losses as those losses are initially allocated to subordinated bondholders. The Company's investment strategy is to purchase CMO tranches that are expected to offer the most favorable return given the Company's assessment of associated risks. The Company does not purchase residual interests in CMOs. For more information regarding the Company's investments in residential mortgage-backed securities, see note 3 of notes to the consolidated financial statements herein.

Alternative Documentation Mortgages and Sub-Prime Mortgages

At December 31, 2015 and 2014, the Company's fixed maturity investment portfolio included CMOs backed by alternative documentation mortgages and asset-backed securities collateralized by sub-prime mortgages with a collective fair value of $185 million and $252 million, respectively (comprising less than 1% of the Company's total fixed maturity investments at both dates). The Company defines sub-prime mortgage-backed securities as investments in which the underlying loans primarily exhibit one or more of the following characteristics: low FICO scores, above-prime interest rates, high loan-to-value ratios or high debt-to-income ratios. Alternative documentation securitizations are those in which the underlying loans primarily meet the government-sponsored entities' requirements for credit score but do not meet the government-sponsored entities' guidelines for documentation, property type, debt and loan-to-value ratios. The average credit rating on these securities and obligations held by the Company was"Ba2" at both December 31, 2015 and 2014. The Company does not believe this portfolio exposes it to a material adverse impact on its results of operations, financial position or liquidity, due to the portfolio's relatively small size.

Commercial Mortgage-Backed Securities and Project Loans

At December 31, 2015 and 2014, the Company held commercial mortgage-backed securities (including FHA project loans) of $865 million and $715 million, respectively. The Company does not believe this portfolio exposes it to a material adverse impact on its results of operations, financial position or liquidity, due to the portfolio's relatively small size and the underlying credit strength of these securities. For more information regarding the Company's investments in commercial mortgage-backed securities, see note 3 of notes to the consolidated financial statements herein.

Equity Securities Available for Sale, Real Estate and Short-Term Investments

See note 1 of notes to the consolidated financial statements herein for further information about these invested asset classes.

Other Investments

The Company also invests in private equity limited partnerships, hedge funds, and real estate partnerships. Also included in other investments are non-public common and preferred equities and derivatives. These asset classes have historically provided a higher return than fixed maturities but are subject to more volatility. At December 31, 2015 and 2014, the carrying value of the Company's other investments was $3.45 billion and $3.59 billion, respectively.

Securities Lending

The Company has engaged in securities lending activities from which it generates net investment income by lending certain of its investments to other institutions for short periods of time. At December 31, 2015 and 2014, the Company had $269 million and $296 million of securities on loan, respectively, as part of a tri-party lending agreement. The average monthly balance of securities on loan during 2015 and 2014 was $268 million and $228 million, respectively. Borrowers of these securities provide collateral equal to at least 102% of the market value of the loaned securities plus accrued

Table of Contents

interest. The Company has not incurred any investment losses in its securities lending program for the years ended December 31, 2015, 2014 and 2013.

Lloyd's Trust Deposit

The Company utilizes a Lloyd's trust deposit, whereby owned securities with a fair value of approximately $140 million and $151 million held by a wholly-owned subsidiary at December 31, 2015 and 2014, respectively, were pledged into a Lloyd's trust account to provide a portion of the capital needed to support the Company's obligations at Lloyd's.

Net Unrealized Investment Gains

The net unrealized investment gains that were included as a separate component of accumulated other comprehensive income were as follows:

(at December 31, in millions)	2015	2014	2013
Fixed maturities	**$ 1,780**	$ 2,673	$ 1,760
Equity securities	**177**	320	257
Other investments	**17**	15	13
Unrealized investment gains before tax	**1,974**	3,008	2,030
Tax expense	**685**	1,042	708
Net unrealized investment gains at end of year	**$ 1,289**	$ 1,966	$ 1,322

Net unrealized investment gains at December 31, 2015 decreased from the prior year-end, primarily reflecting the impact of an increase in market interest rates in 2015. Net unrealized investment gains at December 31, 2014 increased over the prior year-end, primarily reflecting the impact of a decrease in market interest rates during 2014.

The following table summarizes, for all fixed maturities and equity securities reported at fair value for which fair value is less than 80% of amortized cost at December 31, 2015, the gross unrealized investment loss by length of time those securities have continuously been in an unrealized loss position of greater than 20% of amortized cost:

	Period For Which Fair Value Is Less Than 80% of Amortized Cost				
(in millions)	3 Months or Less	Greater Than 3 Months, 6 Months or Less	Greater Than 6 Months, 12 Months or Less	Greater Than 12 Months	Total
Fixed maturities:					
Mortgage-backed securities	**$**	**$**	**$**	**$**	**$**
Other	**51**	**17**	**6**	**7**	**81**
Total fixed maturities	**51**	**17**	**6**	**7**	**81**
Equity securities	**3**	**1**			**4**
Total	**$ 54**	**$ 18**	**$ 6**	**$ 7**	**$ 85**

These unrealized investment losses at December 31, 2015 represent less than 1% of the combined fixed maturity and equity security portfolios on a pretax basis and less than 1% of shareholders' equity on an after-tax basis.

For fixed maturity investments where fair value is less than the carrying value and the Company did not reach a decision to impair, the Company continues to have the intent and ability to hold such investments to a projected recovery in value, which may not be until maturity.

Table of Contents

At December 31, 2015 and 2014, below investment grade securities comprised 2.8% and 3.0%, respectively, of the Company's fixed maturity investment portfolio. Included in below investment grade securities at December 31, 2015 were securities in an unrealized loss position that, in the aggregate, had an amortized cost of $937 million and a fair value of $855 million, resulting in a net pretax unrealized investment loss of $82 million. These securities in an unrealized loss position represented approximately 1.6% of the total amortized cost and 1.4% of the fair value of the fixed maturity portfolio at December 31, 2015 and accounted for 25.6% of the total gross pretax unrealized investment loss in the fixed maturity portfolio at December 31, 2015.

Impairment Charges

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

(for the year ended December 31, in millions)	2015	2014	2013
Fixed maturities			
U.S. Treasury securities and obligations of U.S. government and government agencies and authorities	**$**	$	$
Obligations of states, municipalities and political subdivisions			
Debt securities issued by foreign governments			
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities		1	2
All other corporate bonds	**13**	15	3
Redeemable preferred stock			
Total fixed maturities	**13**	16	5
Equity securities			
Public common stock	**37**	9	5
Total equity securities	**37**	9	5
Other investments	**2**	1	5
Total	**$ 52**	$ 26	$ 15

Following are the pretax realized losses on investments sold during the year ended December 31, 2015:

(for the year ended December 31, 2015, in millions)	Loss	Fair Value
Fixed maturities	**$ 14**	**$ 1,157**
Equity securities	**10**	**36**
Total	**$ 24**	**$ 1,193**

Purchases and sales of investments are based on cash requirements, the characteristics of the insurance liabilities and current market conditions. The Company identifies investments to be sold to achieve its primary investment goals of assuring the Company's ability to meet policyholder obligations as well as to optimize investment returns, given these obligations.

CATASTROPHE MODELING

The Company uses various analyses and methods, including proprietary and third-party computer modeling processes, to analyze catastrophic events and the risks associated with them. The Company uses these analyses and methods to make underwriting and reinsurance decisions designed to manage its exposure to catastrophic events. There are no industry-standard methodologies or assumptions for projecting catastrophe exposure. Accordingly, catastrophe estimates provided by different insurers may not be comparable.

Table of Contents

The Company actively monitors and evaluates changes in third-party models and, when necessary, calibrates the catastrophe risk model estimates delivered via its own proprietary modeling processes. The Company considers historical loss experience, recent events, underwriting practices, market share analyses, external scientific analysis and various other factors to account for non-modeled losses to refine its proprietary view of catastrophe risk. These proprietary models are continually updated as new information emerges.

The tables below set forth the probabilities that estimated losses, comprising claims and allocated claim adjustment expenses (but excluding unallocated claim adjustment expenses), from a single event occurring in a one-year timeframe will equal or exceed the indicated loss amounts (expressed in dollars and as a percentage of the Company's common equity), based on the current version of the proprietary and third-party computer models utilized by the Company at December 31, 2015. For example, on the basis described below the tables, the Company estimates that there is a one percent chance that the Company's loss from a single U.S. hurricane in a one-year timeframe would equal or exceed $1.2 billion, or 5% of the Company's common equity at December 31, 2015.

	Dollars (in billions)	
Likelihood of Exceedance(1)	**Single U.S. Hurricane**	**Single U.S. and Canadian Earthquake**
2.0% (1-in-50)	**$ 1.0**	**$ 0.5**
1.0% (1-in-100)	**$ 1.2**	**$ 0.6**
0.4% (1-in-250)	**$ 1.8**	**$ 0.9**
0.1% (1-in-1,000)	**$ 3.4**	**$ 1.5**

	Percentage of Common Equity(2)	
Likelihood of Exceedance	**Single U.S. Hurricane**	**Single U.S. and Canadian Earthquake**
2.0% (1-in-50)	**4%**	**2%**
1.0% (1-in-100)	**5%**	**3%**
0.4% (1-in-250)	**8%**	**4%**
0.1% (1-in-1,000)	**15%**	**7%**

(1) An event that has, for example, a 2% likelihood of exceedance is sometimes described as a "1-in-50 year event." As noted above, however, the probabilities in the table represent the likelihood of losses from a single event equaling or exceeding the indicated threshold loss amount in a one-year timeframe, not over a multi-year timeframe. Also, because the probabilities relate to a single event, the probabilities do not address the likelihood of more than one event occurring in a particular period, and, therefore, the amounts do not address potential aggregate catastrophe losses occurring in a one-year timeframe.

(2) The percentage of common equity is calculated by dividing (a) indicated loss amounts in dollars by (b) total common equity excluding net unrealized investment gains and losses, net of taxes. Net unrealized investment gains and losses can be significantly impacted by both discretionary and other economic factors and are not necessarily indicative of operating trends. Accordingly, the Company's management uses the percentage of common equity calculated on this basis as a metric to evaluate the potential impact of a single hurricane or single earthquake on the Company's financial position for purposes of making underwriting and reinsurance decisions.

The threshold loss amounts in the tables above, which are based on the Company's in-force portfolio at December 31, 2015 and catastrophe reinsurance program at January 1, 2016, are net of reinsurance, after-tax and exclude unallocated claim adjustment expenses, which historically have been less than 10% of loss estimates. For further information regarding the Company's reinsurance, see "Item 1 Reinsurance." The amounts for hurricanes reflect U.S. exposures and include property exposures, property residual market exposures and an adjustment for certain non-property exposures. The hurricane loss amounts are based on the Company's catastrophe risk model estimates and include losses from the hurricane hazards of wind and storm surge. The amounts for earthquakes reflect U.S. and Canadian property and workers' compensation exposures. The Company does not believe that the inclusion of hurricane or earthquake losses arising from other geographical areas or other exposures would materially change the estimated threshold loss amounts.

Catastrophe modeling relies upon inputs based on experience, science, engineering and history. These inputs reflect a significant amount of judgment and are subject to changes which may result in volatility in the modeled output. Catastrophe modeling output may also fail to account for risks that are outside the range of normal probability or are otherwise unforeseeable. Catastrophe modeling assumptions include, among others, the portion of purchased reinsurance that is collectible after a catastrophic event, which may prove to be materially incorrect. Consequently, catastrophe modeling estimates are subject to significant uncertainty. In the tables above, the uncertainty associated with the estimated threshold loss amounts increases significantly as the likelihood of exceedance decreases. In other words, in the case of a relatively more remote event (e.g., 1-in-1,000), the estimated threshold loss amount is relatively less reliable. Actual losses from an event could materially exceed the indicated threshold loss amount. In addition, more than one such event could occur in any period.

Moreover, the Company is exposed to the risk of material losses from other than property and workers' compensation coverages arising out of hurricanes and earthquakes, and it is exposed to catastrophe losses from perils other than hurricanes and earthquakes, such as tornadoes and other windstorms, hail, wildfires, severe winter weather, floods, tsunamis, volcanic eruptions and other naturally-occurring events, such as solar flares, as well as acts of terrorism and cyber-risk.

For more information about the Company's exposure to catastrophe losses, see "Item 1A Risk Factors Catastrophe losses could materially and adversely affect our results of operations, our financial position and/or liquidity, and could adversely impact our ratings, our ability to raise capital and the availability and cost of reinsurance" and "Item 1A Risk Factors We may be adversely affected if our pricing and capital models provide materially different indications than actual results."

CHANGING CLIMATE CONDITIONS

Severe weather events over the last several years have underscored the unpredictability of future climate trends and created uncertainty regarding insurers' exposures to financial loss as a result of catastrophes and other weather-related events. For example, over the last decade hurricane activity has impacted areas further inland than previously experienced, and demographic changes have resulted in larger populations in coastal areas which historically have been subject to severe storms, thus expanding the Company's potential for losses from hurricanes. Additionally, both the frequency and severity of tornado and hail storms in the United States have been more volatile during the last decade. Accordingly, the Company may be subject to increased losses from catastrophes and other weather-related events. Additionally, the Company's catastrophe models may be less reliable due to the increased unpredictability in frequency and severity of severe weather events or other emerging trends in climate conditions.

The Company discusses how potentially changing climate conditions may present other issues for its business under "Risk Factors" in Item 1A of this report and under " Outlook" herein. For example, among other things:

- Increasingly unpredictable and severe weather conditions could result in increased frequency and severity of claims under policies issued by the Company. See "Risk Factors Catastrophe losses could materially and adversely affect our results of operations, our financial position and/or

Table of Contents

liquidity, and could adversely impact our ratings, our ability to raise capital and the availability and cost of reinsurance" and " Outlook Underwriting Gain/Loss."

Changing climate conditions could also impact the creditworthiness of issuers of securities in which the Company invests. For example, water supply adequacy could impact the creditworthiness of bond issuers in the Southwestern United States, and more frequent and/or severe hurricanes could impact the creditworthiness of issuers in the Southeastern United States, among other areas. See "Risk Factors Our investment portfolio may suffer reduced returns or material realized or unrealized losses."

Increased regulation adopted in response to potential changes in climate conditions may impact the Company and its customers. For example, state insurance regulation could impact the Company's ability to manage property exposures in areas vulnerable to significant climate driven losses. If the Company is unable to implement risk based pricing, modify policy terms or reduce exposures to the extent necessary to address rising losses related to catastrophes and smaller scale weather events (should those increased losses occur), its business may be adversely affected. See "Risk Factors Catastrophe losses could materially and adversely affect our results of operations, our financial position and/or liquidity, and could adversely impact our ratings, our ability to raise capital and the availability and cost of reinsurance."

The full range of potential liability exposures related to climate change continues to evolve. Through the Company's Emerging Issues Committee and its Committee on Climate, Energy and the Environment, the Company works with its business units and corporate groups, as appropriate, to identify and try to assess climate change-related liability issues, which are continually evolving and often hard to fully evaluate. See "Risk Factors The effects of emerging claim and coverage issues on our business are uncertain."

Climate change regulation also could increase the Company's customers' costs of doing business. For example, insureds faced with carbon management regulatory requirements may have less available capital for investment in loss prevention and safety features which may, over time, increase loss exposures. Also, increased regulation may result in reduced economic activity, which would decrease the amount of insurable assets and businesses.

The Company regularly reviews emerging issues, such as changing climate conditions, to consider potential changes to its modeling and the use of such modeling, as well as to help determine the need for new underwriting strategies, coverage modifications or new products.

REINSURANCE RECOVERABLES

The Company reinsures a portion of the risks it underwrites in order to control its exposure to losses. For additional discussion regarding the Company's reinsurance coverage, see "Part I Item 1 Reinsurance."

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

(at December 31, in millions)	**2015**	**2014**
Gross reinsurance recoverables on paid and unpaid claims and claim adjustment expenses	**$ 3,848**	$ 4,270
Allowance for uncollectible reinsurance	**(157)**	(203)
Net reinsurance recoverables	**3,691**	4,067
Mandatory pools and associations	**2,015**	1,909
Structured settlements	**3,204**	3,284
Total reinsurance recoverables	**$ 8,910**	$ 9,260

Table of Contents

The $376 million decline in net reinsurance recoverables from December 31, 2014 primarily reflected the impact of cash collections in 2015.

The following table presents the Company's top five reinsurer groups by reinsurance recoverable at December 31, 2015 (in millions). Also included is the A.M. Best rating of each reinsurer group at February 11, 2016:

Reinsurer Group	Reinsurance Recoverable	A.M. Best Rating of Group's Predominant Reinsurer	
Swiss Re Group	$ 453	A+	second highest of 16 ratings
Munich Re Group	418	A+	second highest of 16 ratings
Sompo Japan Nipponkoa Group	232	A+	second highest of 16 ratings
Berkshire Hathaway	229	A++	highest of 16 ratings
XL Capital Group	196	A	third highest of 16 ratings

At December 31, 2015, the Company held $1.10 billion of collateral in the form of letters of credit, funds and trust agreements held to fully or partially collateralize certain reinsurance recoverables.

For a discussion of a pending reinsurance dispute pertaining to a portion of the Company's reinsurance recoverable from the Munich Re Group in the foregoing table, see note 16 of notes to the consolidated financial statements herein.

Included in reinsurance recoverables are amounts related to structured settlements, which are annuities purchased from various life insurance companies to settle certain personal physical injury claims, of which workers' compensation claims comprise a significant portion. In cases where the Company did not receive a release from the claimant, the amount due from the life insurance company related to the structured settlement is included in the Company's consolidated balance sheet as a reinsurance recoverable and the related claim cost is included in the liability for claims and claim adjustment expense reserves, as the Company retains the contingent liability to the claimant. If it is expected that the life insurance company is not able to pay, the Company would recognize an impairment of the related reinsurance recoverable if, and to the extent, the purchased annuities are not covered by state guaranty associations. In the event that the life insurance company fails to make the required annuity payments, the Company would be required to make such payments. The following table presents the Company's top five groups by structured settlements at December 31, 2015 (in millions). Also included is the A.M. Best rating of the Company's predominant insurer from each insurer group at February 11, 2016:

Group	Structured Settlements	A.M. Best Rating of Group's Predominant Insurer	
Fidelity & Guaranty Life Group(1)	$ 910	B++	fifth highest of 16 ratings
MetLife Group(2)	408	A+	second highest of 16 ratings
Genworth Financial Group	400	B++	fifth highest of 16 ratings
John Hancock Group	321	A+	second highest of 16 ratings
Symetra Financial Corporation(3)	226	A	third highest of 16 ratings

(1) Fidelity & Guaranty Life (FGL) has entered into a definitive merger agreement with Anbang Insurance Group Co., Ltd. whereby Anbang will acquire all of the outstanding shares of FGL. The transaction is expected to close in the second quarter of 2016. A.M. Best's ratings of FGL were placed under review with developing implications following the announcement of the merger agreement. The Company does not have any structured settlements with Anbang.

(2) MetLife Inc. has announced a plan to pursue the separation of a substantial portion of its U.S. Retail segment. MetLife is currently evaluating structural alternatives for such a separation, including a public offering of shares in an independent, publicly-traded company, a spin-off, or a

sale. A.M. Best's ratings of MetLife Inc. and its subsidiaries were placed under review with developing implications following the announcement of this plan.

(3) Symetra Financial Corporation became a wholly-owned subsidiary of Sumitomo Life Insurance Company on February 1, 2016 upon the closing of a previously announced merger agreement. A.M. Best's ratings of Symetra were unchanged following the completion of the merger. The Company does not have any structured settlements with Sumitomo Life.

The Company considers the ratings and related outlook assigned to reinsurance companies and life insurance companies by various independent ratings agencies in assessing the adequacy of its allowance for uncollectible amounts.

OUTLOOK

The following discussion provides outlook information for certain key drivers of the Company's results of operations and capital position.

Premiums. The Company's earned premiums are a function of net written premium volume. Net written premiums comprise both renewal business and new business and are recognized as earned premium over the life of the underlying policies. When business renews, the amount of net written premiums associated with that business may increase or decrease (renewal premium change) as a result of increases or decreases in rate and/or insured exposures, which the Company considers as a measure of units of exposure (such as the number and value of vehicles or properties insured). Net written premiums from both renewal and new business, and therefore earned premiums, are impacted by competitive market conditions as well as general economic conditions, which, particularly in the case of the Business and International Insurance segment, affect audit premium adjustments, policy endorsements and mid-term cancellations. Property and casualty insurance market conditions are expected to remain competitive. Net written premiums may also be impacted by the structure of reinsurance programs and related costs, as well as changes in foreign currency exchange rates.

Overall, the Company expects retention levels (the amount of expiring premium that renews, before the impact of renewal premium changes) will remain strong by historical standards. In the Business and International Insurance segment, the Company expects that domestic renewal premium changes during 2016 will remain positive but will be slightly lower than the levels attained in 2015. Given the relatively smaller amount of premium that the Company generates from outside the United States and the transactional nature of some of those markets, particularly Lloyd's, international renewal premium changes during 2016 could be somewhat higher, broadly consistent with or somewhat lower than the levels attained in 2015. In the Bond & Specialty Insurance segment, the Company expects that renewal premium changes with respect to management liability business during 2016 will remain positive, but will be slightly lower than the levels attained in 2015. With respect to surety business, within the Bond & Specialty Insurance segment, the Company expects that net written premium volume during 2016 will be slightly higher than the levels attained in 2015. In the Personal Insurance segment, the Company expects that Agency Auto renewal premium changes during 2016 will remain positive and will be slightly higher than the levels attained in 2015, and Agency Homeowners and Other renewal premium changes during 2016 will remain positive, but will be lower than the levels attained in 2015. The need for state regulatory approval for changes to personal property and casualty insurance prices, as well as competitive market conditions, may impact the timing and extent of renewal premium changes.

Property and casualty insurance market conditions are expected to remain competitive in 2016 for new business, not only in Business and International Insurance and Bond & Specialty Insurance, but especially in Personal Insurance, where price comparison technology used by agents and brokers, sometimes referred to as "comparative raters," has facilitated the process of generating multiple quotes, thereby increasing price comparison on new business and, increasingly, on renewal business. The Company expects that its Quantum Auto 2.0 product in the Personal Insurance segment's Agency

Automobile line of business will continue to increase new business premiums during 2016 compared with the levels attained in 2015, although at a lower rate of increase than in recent periods. The Company also expects that, as a result of strong business retentions and increases in new business, policies in force in the Personal Insurance segment's Agency Automobile line of business will continue to increase during 2016 compared with the number of policies in force at December 31, 2015. Policies in force in the Personal Insurance segment's Homeowners and Other line of business are also expected to increase in 2016 compared with the number of policies in force at December 31, 2015. In each of the Company's business segments, new business generally has less of an impact on underwriting profitability than renewal business, given the volume of new business relative to renewal business. However, in periods of meaningful increases in new business, despite its positive impact on underwriting gains over time, the impact of a higher mix of new business versus renewal business may negatively impact the combined ratio in the short-term.

General uncertainty regarding a variety of domestic and international matters, such as the U.S. Federal budget and taxes, implementation of the Affordable Care Act, the regulatory environment, geopolitical instability, slow growth and economic uncertainty in the United States and in various parts of the world, rapid changes in commodity prices, such as in oil, and fluctuations in interest rates and foreign currency exchange rates has added to the uncertainty regarding economic conditions generally. If economic conditions deteriorate, the resulting low levels of economic activity could impact exposure changes at renewal and the Company's ability to write business at acceptable rates. Additionally, low levels of economic activity could adversely impact audit premium adjustments, policy endorsements and mid-term cancellations after policies are written. All of the foregoing, in turn, could adversely impact net written premiums in 2016, and because earned premiums are a function of net written premiums, earned premiums could be adversely impacted on a lagging basis.

Underwriting Gain/Loss. The Company's underwriting gain/loss can be significantly impacted by catastrophe losses and net favorable or unfavorable prior year reserve development, as well as underlying underwriting margins.

Catastrophe and other weather-related losses are inherently unpredictable from period to period. The Company experienced significant catastrophe and other weather-related losses in a number of periods during the past decade, which adversely impacted its results of operations. The Company's results of operations could be adversely impacted if significant catastrophe and other weather-related losses were to occur.

For the last several years, the Company's results have included significant amounts of net favorable prior year reserve development driven by better than expected loss experience in all of the Company's segments. However, given the inherent uncertainty in estimating claims and claim adjustment expense reserves, loss experience could develop such that the Company recognizes higher or lower levels of favorable prior year reserve development, no favorable prior year reserve development or unfavorable prior year reserve development in future periods. In addition, the ongoing review of prior year claims and claim adjustment expense reserves, or other changes in current period circumstances, may result in the Company revising current year loss estimates upward or downward in future periods of the current year.

It is possible that the steps taken by the federal government in recent years, particularly by the Federal Reserve, to stabilize financial markets and improve economic conditions could lead to higher inflation than the Company had anticipated, which could in turn lead to an increase in the Company's loss costs and the need to strengthen claims and claim adjustment expense reserves. These impacts of inflation on loss costs and claims and claim adjustment expense reserves could be more pronounced for those lines of business that are considered "long tail", such as general liability, as they require a relatively long period of time to finalize and settle claims for a given accident year. For a further discussion, see "Part I Item 1A Risk Factors If actual claims exceed our claims and claim

Table of Contents

adjustment expense reserves, or if changes in the estimated level of claims and claim adjustment expense reserves are necessary, our financial results could be materially and adversely affected" herein.

In Business and International Insurance, the Company expects underlying underwriting margins in 2016 will be broadly consistent with those in 2015, reflecting lower (and more normalized) levels of what the Company defines as large losses and non-catastrophe weather-related losses.

In Bond & Specialty Insurance, the Company expects underlying underwriting margins in 2016 will be broadly consistent with those in 2015.

In Personal Insurance, the Company expects underlying underwriting margins in 2016 will be lower than in 2015. In Agency Automobile, the Company expects underlying underwriting margins in 2016 will be slightly lower than in 2015, reflecting a higher mix of new business versus renewal business. In Agency Homeowners and Other, the Company expects underlying underwriting margins in 2016 will be lower than in 2015, reflecting higher (and more normalized) levels of loss activity. Also in Personal Insurance, the Company's direct to consumer initiative, the distribution channel that the Company launched in 2009, while intended to enhance the Company's long-term ability to compete successfully in a consumer-driven marketplace, is expected to remain modest with respect to premium volume and remain unprofitable for a number of years as this book of business grows and matures.

Consolidation within the insurance industry, including among insurance companies, reinsurance companies and brokers and independent insurance agencies, could alter the competitive environment in which the Company operates, positively or negatively, which may impact the Company's premium volume, the rate it can charge for its products, and the terms on which its products are offered.

Investment Portfolio. The Company expects to continue to focus its investment strategy on maintaining a high-quality investment portfolio and a relatively short average effective duration. The average effective duration of fixed maturities and short-term securities was 3.9 (4.2 excluding short-term securities) at December 31, 2015. From time to time, the Company enters into short positions in U.S. Treasury futures contracts to manage the duration of its fixed maturity portfolio. At December 31, 2015, the Company had $400 million notional value of open U.S. Treasury futures contracts. The Company continually evaluates its investment alternatives and mix. Currently, the majority of the Company's investments are comprised of a widely diversified portfolio of high-quality, liquid, taxable U.S. government, tax-exempt U.S. municipal and taxable corporate and U.S. agency mortgage-backed bonds.

The Company also invests much smaller amounts in equity securities, real estate, private equity limited partnerships, hedge funds, and real estate partnerships and joint ventures. These investment classes have the potential for higher returns but also the potential for higher degrees of risk, including less stable rates of return and less liquidity.

Net investment income is a material contributor to the Company's results of operations. Interest rates remain at very low levels by historical standards. Based on the current interest rate environment, the Company estimates that the impacts of lower reinvestment yields and a lower level of fixed maturity investments could, in 2016, result in approximately $25 million to $30 million of lower after-tax net investment income from that portfolio on a quarterly basis as compared to the corresponding periods of 2015. Net investment income from the non-fixed maturity investment portfolio in 2015 was lower than in 2014. Particularly given the recent levels of market volatility, there is more than the usual uncertainty as to the impact of future market conditions on net investment income from the non-fixed maturity investment portfolio in 2016. If general economic conditions and/or investment market conditions deteriorate during 2016, the Company could experience a further reduction in net investment income and/or significant realized investment losses, including impairments.

The Company had a net pretax unrealized investment gain of $1.78 billion ($1.16 billion after-tax) in its fixed maturity investment portfolio at December 31, 2015. While the Company does not attempt to predict future interest rate movements, a rising interest rate environment would reduce the market

Table of Contents

value of fixed maturity investments and, therefore, reduce shareholders' equity, and a declining interest rate environment would have the opposite effects.

For further discussion of the Company's investment portfolio, see "Investment Portfolio" herein. For a discussion of the risks to the Company's business during or following a financial market disruption and risks to the Company's investment portfolio, see the risk factors entitled "During or following a period of financial market disruption or economic downturn, our business could be materially and adversely affected" and "Our investment portfolio may suffer reduced returns or material realized or unrealized losses" included in "Part I Item 1A Risk Factors" herein. For a discussion of the risks to the Company's investments from foreign currency exchange rate fluctuations, see the risk factor entitled "We are subject to a number of risks associated with our business outside the United States" included in "Part I Item 1A Risk Factors" herein and see "Part II Item 7A Quantitative and Qualitative Disclosure About Market Risk Foreign Currency Exchange Rate Risk" herein.

Capital Position. The Company believes it has a strong capital position and, as part of its ongoing efforts to create shareholder value, expects to continue to return capital not needed to support its business operations to its shareholders. The Company expects that, generally over time, the combination of dividends to common shareholders and common share repurchases will likely not exceed operating income. In addition, the timing and actual number of shares to be repurchased in the future will depend on a variety of additional 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. For information regarding the Company's common share repurchases in 2015, see "Liquidity and Capital Resources" herein. As a result of the Company's business outside of the United States, primarily in Canada, the United Kingdom (including Lloyd's), the Republic of Ireland and Brazil, the Company's capital is also subject to the effects of changes in foreign currency exchange rates. For example, strengthening of the U.S. dollar in comparison to other currencies could result in a reduction of shareholders' equity. For additional discussion of the Company's foreign exchange market risk exposure, see "Part II Item 7A Quantitative and Qualitative Disclosure About Market Risk" herein.

Many of the statements in this "Outlook" section are forward-looking statements, which are subject to risks and uncertainties that are often difficult to predict and beyond the Company's control. Actual results could differ materially from those expressed or implied by such forward-looking statements. Further, such forward-looking statements speak only as of the date of this report and the Company undertakes no obligation to update them. See " Forward-Looking Statements." For a discussion of potential risks and uncertainties that could impact the Company's results of operations or financial position, see "Item 1A Risk Factors" and "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates" herein.

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

Liquidity is a measure of a company's ability to generate sufficient cash flows to meet the cash requirements of its business operations and to satisfy general corporate purposes when needed.

Operating Company Liquidity. The liquidity requirements of the Company's insurance subsidiaries are met primarily by funds generated from premiums, fees, income received on investments and investment maturities. Cash provided from these sources is used primarily for claims and claim adjustment expense payments and operating expenses. The insurance subsidiaries' liquidity requirements can be impacted by, among other factors, the timing and amount of catastrophe claims, which are inherently unpredictable, as well as the timing and amount of reinsurance recoveries, which may be affected by reinsurer solvency and reinsurance coverage disputes. Additionally, the variability of asbestos-related claim payments, as well as the volatility of potential judgments and settlements arising out of litigation, may also result in increased liquidity requirements. It is the opinion of the Company's management that the insurance subsidiaries' future liquidity needs will be adequately met from all of the sources described above. Subject to restrictions imposed by states in which the Company's insurance subsidiaries are domiciled, the Company's principal insurance subsidiaries pay dividends to their respective parent companies, which in turn pay dividends to the corporate holding (parent) company (TRV). For further information regarding restrictions on dividends paid by the Company's insurance subsidiaries, see "Part I Item 1 Regulation" herein.

Holding Company Liquidity. TRV's liquidity requirements primarily include shareholder dividends, debt servicing, common share repurchases and, from time to time, contributions to its qualified domestic pension plan. At December 31, 2015, TRV held total cash and short-term invested assets in the United States aggregating $1.63 billion and having a weighted average maturity of 66 days. It is the opinion of the Company's management that these assets, which are in excess of TRV's target level, comprising TRV's estimated annual pretax interest expense and common shareholders dividends, and currently totals approximately $1.1 billion, are sufficient to meet TRV's current liquidity requirements.

TRV is not dependent on dividends or other forms of repatriation from its foreign operations to support its liquidity needs. U.S. income taxes have not been recognized on $383 million of the Company's foreign operations' undistributed earnings as of December 31, 2015, as such earnings are intended to be permanently reinvested in those operations. Furthermore, taxes paid to foreign governments on these earnings may be used as credits against the U.S. tax on dividend distributions if such earnings were to be distributed to the holding company. The amount of undistributed earnings from foreign operations and related taxes on those undistributed earnings were not material to the Company's financial position or liquidity at December 31, 2015.

TRV has a shelf registration statement filed with the Securities and Exchange Commission which permits it to issue securities from time to time. TRV also has a $1.0 billion line of credit facility with a syndicate of financial institutions that expires in June 2018. This line of credit also supports TRV's $800 million commercial paper program, of which $100 million was outstanding at December 31, 2015. TRV is not reliant on its commercial paper program to meet its operating cash flow needs.

The Company utilized uncollateralized letters of credit issued by major banks with an aggregate limit of approximately $197 million, to provide a portion of the capital needed to support its obligations at Lloyd's at December 31, 2015. If uncollateralized letters of credit are not available at a reasonable price or at all in the future, the Company can collateralize these letters of credit or may have to seek alternative means of supporting its obligations at Lloyd's, which could include utilizing holding company funds on hand.

On June 20, 2016, the Company's $400 million, 6.25% senior notes will mature. The Company may refinance this maturing debt through funds generated internally or, depending on market conditions, through funds generated externally.

Table of Contents

Operating Activities

Net cash flows provided by operating activities were $3.43 billion, $3.69 billion and $3.82 billion in 2015, 2014 and 2013, respectively. Cash flows in 2015 reflected a higher level of losses and loss adjustment expenses paid as a result of the Company's $579 million payment related to the settlement of the Asbestos Direct Action Litigation as described in more detail in note 16 of notes to the consolidated financial statements herein and a lower level of net investment income, partially offset by a higher level of collected premiums and a lower contribution to the Company's qualified domestic pension plan. Cash flows in 2014 primarily reflected higher levels of payments for claims and claim adjustment expenses, general and administrative expenses and commission expenses, as well as higher income tax payments, partially offset by higher levels of collected premiums. These increases included the impact of the Company's acquisition of Dominion. Cash flows in 2013 primarily reflected a decrease in losses paid related to catastrophes and a higher level of collected premiums, partially offset by an increase in income tax payments. In 2015 and 2014, the Company voluntarily made contributions totaling $100 million and $200 million, respectively, to its qualified domestic pension plan. In 2013, the Company made no contributions to its qualified domestic pension plan. The qualified domestic pension plan was 96% funded at both December 31, 2015 and 2014.

Investing Activities

Net cash provided by investing activities was $317 million in 2015, compared with net cash flows provided by investing activities of $206 million in 2014 and net cash flows used in investing activities of $910 million in 2013. The 2013 total included $997 million related to the Company's acquisition of Dominion (net of cash acquired). The Company's consolidated total investments at December 31, 2015 decreased by $2.79 billion, or 4% from year-end 2014, primarily reflecting a decrease in the unrealized appreciation of investments, common share repurchases, the impact of changes in foreign currency exchange rates and dividends paid to shareholders, partially offset by net cash flows provided by operating activities. The Company's consolidated total investments at December 31, 2014 increased by $101 million, or less than 1% over year-end 2013, primarily reflecting the impact of net cash flows provided by operating activities and an increase in net unrealized appreciation of investments, largely offset by common share repurchases and dividends paid to shareholders.

The Company's investment portfolio is managed to support its insurance operations; accordingly, the portfolio is positioned to meet obligations to policyholders. As such, the primary goals of the Company's asset-liability management process are to satisfy the insurance liabilities and maintain sufficient liquidity to cover fluctuations in projected liability cash flows. Generally, the expected principal and interest payments produced by the Company's fixed maturity portfolio adequately fund the estimated runoff of the Company's insurance reserves. Although this is not an exact cash flow match in each period, the substantial amount by which the market value of the fixed maturity portfolio exceeds the value of the net insurance liabilities, as well as the positive cash flow from newly sold policies and the large amount of high quality liquid bonds, contributes to the Company's ability to fund claim payments without having to sell illiquid assets or access credit facilities.

Financing Activities

Net cash flows used in financing activities were $3.73 billion, $3.81 billion and $2.94 billion in 2015, 2014 and 2013, respectively. The totals in each year primarily reflected common share repurchases and dividends to shareholders, partially offset by the proceeds from employee stock option exercises. The total in 2015 also included the issuance of 4.30% senior notes for net proceeds of $392 million and the payment of the Company's $400 million, 5.50% senior notes at maturity. The total in 2013 also included the issuance of 4.60% senior notes for net proceeds of $494 million and the payment of the Company's $500 million, 5.00% senior notes at maturity. Common share repurchases in 2015, 2014 and 2013 were $3.22 billion, $3.33 billion and $2.46 billion, respectively.

Debt Transactions.

2015. On August 25, 2015, the Company issued $400 million aggregate principal amount of 4.30% senior notes that will mature on August 25, 2045. The net proceeds of the issuance, after original issuance discount and the deduction of underwriting expenses and commissions and other expenses, totaled approximately $392 million. Interest on the senior notes is payable semi-annually in arrears on February 25 and August 25, commencing on February 25, 2016. Prior to February 25, 2045, the senior notes may be redeemed, in whole or in part, at the Company's option, at any time or from time to time, at a redemption price equal to the greater of (a) 100% of the principal amount of any senior notes to be redeemed or (b) the sum of the present values of the remaining scheduled payments of principal and interest on any senior notes to be redeemed (exclusive of interest accrued to the date of redemption) discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the then current rate of a treasury security having a maturity comparable to the remaining term of these senior notes, plus 25 basis points. On or after February 25, 2045, the senior notes may be redeemed, in whole or in part, at the Company's option, at any time or from time to time, at a redemption price equal to 100% of the principal amount of any senior notes to be redeemed.

On December 1, 2015, the Company's $400 million, 5.50% senior notes matured and were fully paid.

2013. On July 25, 2013, the Company issued $500 million aggregate principal amount of 4.60% senior notes that will mature on August 1, 2043. The net proceeds of the issuance, after original issuance discount and the deduction of underwriting expenses and commissions and other expenses, totaled approximately $494 million. Interest on the senior notes is payable semi-annually in arrears on February 1 and August 1. The senior notes are redeemable in whole at any time or in part from time to time, at the Company's option, at a redemption price equal to the greater of (a) 100% of the principal amount of senior notes to be redeemed or (b) the sum of the present value of the remaining scheduled payments of principal and interest on the senior notes to be redeemed (exclusive of interest accrued to the date of redemption) discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the then current treasury rate (as defined) plus 15 basis points.

On March 15, 2013, the Company's $500 million, 5.00% senior notes matured and were fully paid.

Dividends. Dividends paid to shareholders were $739 million, $729 million and $729 million in 2015, 2014 and 2013, respectively. The declaration and payment of future dividends to holders of the Company's common stock will be at the discretion of the Company's board of directors and will depend upon many factors, including the Company's financial position, earnings, capital requirements of the Company's operating subsidiaries, legal requirements, regulatory constraints and other factors as the board of directors deems relevant. Dividends will be paid by the Company only if declared by its board of directors out of funds legally available, subject to any other restrictions that may be applicable to the Company. On January 21, 2016, the Company announced that its board of directors declared a regular quarterly dividend of $0.61 per share, payable March 31, 2016, to shareholders of record on March 10, 2016.

Share Repurchases. The Company's board of directors has approved common share repurchase authorizations under which repurchases may be made from time to time in the open market, pursuant to pre-set trading plans meeting the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934, in private transactions or otherwise. The authorizations do not have a stated expiration date. The timing and actual number of shares to be repurchased in the future will depend on a variety of factors, including the Company's financial position, earnings, share price, catastrophe losses, maintaining capital levels commensurate with the Company's desired ratings from independent rating agencies, funding of

Table of Contents

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. In April 2015, the board of directors approved a share repurchase authorization that added an additional $5.0 billion of repurchase capacity. The following table summarizes repurchase activity in 2015 and remaining repurchase capacity at December 31, 2015.

Quarterly Period Ending (in millions, except per share amounts)	**Number of shares purchased**	**Cost of shares repurchased**	**Average price paid per share**	**Remaining capacity under share repurchase authorization**
March 31, 2015	5.6	$ 600	$ 106.97	$ 884
June 30, 2015	7.9	800	101.62	5,084
September 30, 2015	7.3	750	102.81	4,334
December 31, 2015	8.8	1,000	113.47	3,334
Total	29.6	$ 3,150	106.46	3,334

From the inception of the first authorization on May 2, 2006 through December 31, 2015, the Company has repurchased a cumulative total of 455.5 million shares for a total cost of $27.67 billion, or an average of $60.74 per share.

In 2015, 2014 and 2013, the Company acquired 0.7 million, 0.7 million and 0.8 million shares, respectively, of common stock from employees as treasury stock primarily to cover payroll withholding taxes related to the vesting of restricted stock awards and exercises of stock options.

Capital Resources

Capital resources reflect the overall financial strength of the Company and its ability to borrow funds at competitive rates and raise new capital to meet its needs. The following table summarizes the components of the Company's capital structure at December 31, 2015 and 2014.

(at December 31, in millions)	**2015**	**2014**
Debt:		
Short-term	**$ 500**	$ 500
Long-term	**5,861**	5,861
Net unamortized fair value adjustments and debt issuance costs	**(17)**	(12)
Total debt	**6,344**	6,349
Shareholders' equity:		
Common stock and retained earnings, less treasury stock	**23,755**	23,956
Accumulated other comprehensive income (loss)	**(157)**	880
Total shareholders' equity	**23,598**	24,836
Total capitalization	**$ 29,942**	$ 31,185

Total capitalization at December 31, 2015 was $29.94 billion, $1.24 billion lower than at December 31, 2014, primarily reflecting the impact of a decrease in net unrealized appreciation of investments, common share repurchases totaling $3.15 billion under the Company's share repurchase authorization, an increase in net unrealized foreign exchange translation losses and shareholder dividends of $744 million, partially offset by net income of $3.44 billion.

Table of Contents

The following table provides a reconciliation of total capitalization excluding net unrealized gains on investments to total capitalization presented in the foregoing table.

(at December 31, dollars in millions)	2015	2014
Total capitalization excluding net unrealized gains on investments	**$ 28,653**	$ 29,219
Net unrealized gain on investments, net of taxes	**1,289**	1,966
Total capitalization	**$ 29,942**	$ 31,185
Debt-to-total capital ratio	**21.2%**	20.4%
Debt-to-total capital ratio excluding net unrealized gains on investments	**22.1%**	21.7%

The debt-to-total capital ratio excluding net unrealized gain on investments is calculated by dividing (a) debt by (b) total capitalization excluding net unrealized gains and losses on investments, net of taxes. Net unrealized gains and losses on investments can be significantly impacted by both interest rate movements and other economic factors. Accordingly, in the opinion of the Company's management, the debt-to-total capital ratio calculated on this basis provides another useful metric for investors to understand the Company's financial leverage position. The Company's ratio of debt-to-total capital (excluding after-tax net unrealized investment gains) of 22.1% at December 31, 2015 was within the Company's target range of 15% to 25%.

Credit Agreement. The Company is a party to a five-year, $1.0 billion revolving credit agreement with a syndicate of financial institutions that expires in June 2018. Terms of the credit agreement are discussed in more detail in note 8 of notes to the consolidated financial statements herein.

Shelf Registration. The Company has filed with the Securities and Exchange Commission a universal shelf registration statement for the potential offering and sale of securities. The Company may offer these securities from time to time at prices and on other terms to be determined at the time of offering.

Share Repurchase Authorization. At December 31, 2015, the Company had $3.33 billion of capacity remaining under its share repurchase authorization approved by the board of directors.

Contractual Obligations

The following table summarizes, as of December 31, 2015, the Company's future payments under contractual obligations and estimated claims and claim-related payments. The table excludes short-term obligations and includes only liabilities at December 31, 2015 that are expected to be settled in cash.

The table below includes the amount and estimated future timing of claims and claim-related payments. The amounts do not represent the exact liability, but instead represent estimates, generally utilizing actuarial projections techniques, at a given accounting date. These estimates include expectations of what the ultimate settlement and administration of claims will cost based on the Company's assessment of facts and circumstances known, review of historical settlement patterns, estimates of trends in claims severity, frequency, legal theories of liability and other factors. Variables in the reserve estimation process can be affected by both internal and external events, such as changes in claims handling procedures, economic inflation or deflation, legal trends and legislative changes. Many of these items are not directly quantifiable, particularly on a prospective basis. Additionally, there may be significant reporting lags between the occurrence of the policyholder event and the time it is actually reported to the insurer. The future cash flows related to the items contained in the table below required estimation of both amount (including severity considerations) and timing. Amount and timing are frequently estimated separately. An estimation of both amount and timing of future cash flows related to claims and claim-related payments has unavoidable estimation uncertainty.

Table of Contents

The contractual obligations at December 31, 2015 were as follows:

Payments Due by Period (in millions)	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	After 5 Years
Debt					
Senior notes	$ 5,900	$ 400	$ 950	$ 1,000	$ 3,550
Junior subordinated debentures	361				361
Total debt principal	6,261	400	950	1,000	3,911
Interest	5,365	348	625	510	3,882
Total long-term debt obligations(1)	11,626	748	1,575	1,510	7,793
Operating leases(2)	654	159	241	140	114
Purchase obligations					
Information systems administration and maintenance commitments(3)	103	54	36	12	1
Other purchase commitments(4)	144	45	52	26	21
Total purchase obligations	247	99	88	38	22
Long-term unfunded investment commitments(5)	1,711	383	512	554	262
Estimated claims and claim-related payments					
Claims and claim adjustment expenses(6)	46,157	9,540	10,251	5,539	20,827
Claims from large deductible policies(7)					
Loss-based assessments(8)	168	37	50	18	63
Reinsurance contracts accounted for as deposits(9)	2		2		
Payout from ceded funds withheld(10)	119	4	10	9	96
Total estimated claims and claim-related payments	46,446	9,581	10,313	5,566	20,986
Liabilities related to unrecognized tax benefits(11)	296		296		
Total	$ 60,980	$ 10,970	$ 13,025	$ 7,808	$ 29,177

(1) The Company's $107 million remaining aggregate principal amount of 6.25% fixed-to-floating rate debentures bear interest at an annual rate of 6.25% from the date of issuance to, but excluding, March 15, 2017 and at a rate of three-month LIBOR plus 2.215% thereafter. The table above includes interest payments through the scheduled maturity date of March 15, 2037. Interest payments beginning March 15, 2017 through March 15, 2037 were calculated using the three-month LIBOR rate as of December 31, 2015.

See note 8 of notes to the consolidated financial statements herein for a further discussion of outstanding indebtedness. Because the amounts reported in the foregoing table include principal and interest, the total long-term debt obligations will not agree with the amounts reported in note 8.

(2) Represents agreements entered into in the ordinary course of business to lease office space, equipment and furniture. Future sublease rental income aggregating approximately $6 million will partially offset these commitments.

(3) Includes agreements with vendors to purchase system software administration and maintenance services.

127

Table of Contents

(4)
Includes commitments to vendors entered into in the ordinary course of business for goods and services including property, plant and equipment, office supplies, archival services, etc.

(5)
Represents estimated timing for fulfilling unfunded commitments for private equity limited partnerships and real estate partnerships.

(6)
The amounts in "Claims and claim adjustment expenses" in the table above represent the estimated timing of future payments for both reported and unreported claims incurred and related claim adjustment expenses, gross of reinsurance recoverables, excluding structured settlements expected to be paid by annuity companies.

The Company has entered into reinsurance agreements to manage its exposure to losses and protect its capital as described in note 5 of notes to the consolidated financial statements herein.

In order to qualify for reinsurance accounting, a reinsurance agreement must indemnify the insurer from insurance risk, i.e., the agreement must transfer amount and timing risk. Since the timing and amount of cash inflows from such reinsurance agreements are directly related to the underlying payment of claims and claim adjustment expenses by the insurer, reinsurance recoverables are recognized in a manner consistent with the liabilities (the estimated liability for claims and claim adjustment expenses) relating to the underlying reinsured contracts. The presence of any feature that can delay timely reimbursement of claims by a reinsurer results in the reinsurance contract being accounted for as a deposit rather than reinsurance. The assumptions used in estimating the amount and timing of the reinsurance recoverables are consistent with those used in estimating the amount and timing of the related liabilities.

The estimated future cash inflows from the Company's reinsurance contracts that qualify for reinsurance accounting are as follows:

(in millions)	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	After 5 Years
Reinsurance recoverables	**$ 5,354**	**$ 739**	**$ 878**	**$ 563**	**$ 3,174**

The Company manages its business and evaluates its liabilities for claims and claim adjustment expenses on a net of reinsurance basis. The estimated cash flows on a net of reinsurance basis are as follows:

(in millions)	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	After 5 Years
Claims and claim adjustment expenses, net	**$ 40,803**	**$ 8,801**	**$ 9,373**	**$ 4,976**	**$ 17,653**

For business underwritten by non-U.S. operations, future cash flows related to reported and unreported claims incurred and related claim adjustment expenses were translated at the spot rate on December 31, 2015.

The amounts reported in the table above and in the table of reinsurance recoverables above are presented on a nominal basis and have not been adjusted to reflect the time value of money. Accordingly, the amounts above will differ from the Company's balance sheet to the extent that the liability for claims and claim adjustment expenses and the related reinsurance recoverables have been discounted in the balance sheet. See note 1 of notes to the consolidated financial statements herein.

(7)
Workers' compensation large deductible policies provide third party coverage in which the Company typically is responsible for paying the entire loss under such policies and then seeks reimbursement from the insured for the deductible amount. "Claims from large deductible policies" represent the estimated future payment for claims and claim related expenses below the deductible amount, net of the estimated recovery of the deductible. The liability and the related

Table of Contents

deductible receivable for unpaid claims are presented in the consolidated balance sheet as "contractholder payables" and "contractholder receivables," respectively. Most deductibles for such policies are paid directly from the policyholder's escrow which is periodically replenished by the policyholder. The payment of the loss amounts above the deductible are reported within "Claims and claim adjustment expenses" in the above table. Because the timing of the collection of the deductible (contractholder receivables) occurs shortly after the payment of the deductible to a claimant (contractholder payables), these cash flows offset each other in the table.

The estimated timing of the payment of the contractholder payables and the collection of contractholder receivables for workers' compensation policies is presented below:

(in millions)	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	After 5 Years
Contractholder payables/receivables	**$ 4,374**	**$ 1,106**	**$ 1,231**	**$ 653**	**$ 1,384**

(8)

The amounts in "Loss-based assessments" relate to estimated future payments of second-injury fund assessments which would result from payment of current claim liabilities. Second injury funds cover the cost of any additional benefits for aggravation of a pre-existing condition. For loss-based assessments, the cost is shared by the insurance industry and self-insureds, funded through assessments to insurance companies and self-insureds based on losses. Amounts relating to second-injury fund assessments are included in "other liabilities" in the consolidated balance sheet.

(9)

The amounts in "Reinsurance contracts accounted for as deposits" represent estimated future nominal payments for reinsurance agreements that are accounted for as deposits. Amounts payable under deposit agreements are included in "other liabilities" in the consolidated balance sheet.

(10)

The amounts in "Payout from ceded funds withheld" represent estimated payments for losses and return of funds held related to certain reinsurance arrangements whereby the Company holds a portion of the premium due to the reinsurer and is allowed to pay claims from the amounts held.

(11)

The Company's current liabilities related to unrecognized tax benefits from uncertain tax positions are $296 million. Offsetting these liabilities are deferred tax assets of $275 million associated with the temporary differences that would exist if these positions become realized.

The above table does not include an analysis of liabilities reported for structured settlements for which the Company has purchased annuities and remains contingently liable in the event of default by the company issuing the annuity. The Company is not reasonably likely to incur material future payment obligations under such agreements. In addition, the Company is not currently subject to any minimum funding requirements for its qualified pension plan. Accordingly, future contributions are not included in the foregoing table.

Dividend Availability

The Company's principal insurance subsidiaries are domiciled in the state of Connecticut. The insurance holding company laws of Connecticut applicable to the Company's subsidiaries requires notice to, and approval by, the state insurance commissioner for the declaration or payment of any dividend that, together with other distributions made within the preceding twelve months, exceeds the greater of 10% of the insurer's statutory capital and surplus as of the preceding December 31, or the insurer's net income for the twelve-month period ending the preceding December 31, in each case determined in accordance with statutory accounting practices and by state regulation. This declaration or payment is further limited by adjusted unassigned surplus, as determined in accordance with statutory accounting practices. The insurance holding company laws of other states in which the Company's subsidiaries are domiciled generally contain similar, although in some instances somewhat more restrictive, limitations on the payment of dividends. A maximum of $3.81 billion is available by the end of 2016 for such dividends to the holding company, TRV, without prior approval of the

Table of Contents

Connecticut Insurance Department. The Company may choose to accelerate the timing within 2016 and/or increase the amount of dividends from its insurance subsidiaries in 2016, which could result in certain dividends being subject to approval by the Connecticut Insurance Department.

In addition to the regulatory restrictions on the availability of dividends that can be paid by the Company's U.S. insurance subsidiaries, the maximum amount of dividends that may be paid to the Company's shareholders is limited, to a lesser degree, by certain covenants contained in its line of credit agreement with a syndicate of financial institutions that require the Company to maintain a minimum consolidated net worth as described in note 8 of notes to the consolidated financial statements herein.

TRV is not dependent on dividends or other forms of repatriation from its foreign operations to support its liquidity needs. The undistributed earnings of the Company's foreign operations are not material and are intended to be permanently reinvested in those operations.

TRV and its two non-insurance holding company subsidiaries received dividends of $3.75 billion, $4.10 billion and $2.90 billion from their U.S. insurance subsidiaries in 2015, 2014 and 2013, respectively.

Pension and Other Postretirement Benefit Plans

The Company sponsors a qualified non-contributory defined benefit pension plan (the Qualified Plan), which covers substantially all U.S. domestic employees and provides benefits primarily under a cash balance formula. In addition, the Company sponsors a nonqualified defined benefit pension plan which covers certain highly-compensated employees, pension plans for employees of its foreign subsidiaries, and a postretirement health and life insurance benefit plan for employees satisfying certain age and service requirements and for certain retirees.

The Qualified Plan is subject to regulations under the Employee Retirement Income Act of 1974 as amended (ERISA), which requires plans to meet minimum standards of funding and requires such plans to subscribe to plan termination insurance through the Pension Benefit Guaranty Corporation (PBGC). The Company does not have a minimum funding requirement for the Qualified Plan for 2016 and does not anticipate having a minimum funding requirement in 2017. The Company has significant discretion in making contributions above those necessary to satisfy the minimum funding requirements. In 2015, 2014 and 2013, there was no minimum funding requirement for the Qualified Plan. In 2015 and 2014, the Company voluntarily made contributions totaling $100 million and $200 million, respectively, to the Qualified Plan. In determining future contributions, the Company will consider the performance of the plan's investment portfolio, the effects of interest rates on the projected benefit obligation of the plan and the Company's other capital requirements. The Company has not determined whether or not additional voluntary funding will be made in 2016. However, the Company currently believes, subject to actual plan performance and funded status at the time, that it may make voluntary pension contributions of approximately $75 million to $100 million annually beginning in 2016.

Beginning in 2016, the Company will use a full yield-curve approach in the estimation of the service and interest cost components of net periodic benefit costs for its qualified and nonqualified domestic pension plans and the domestic postretirement benefit plans. The full yield curve approach applies the specific spot rates along the yield curve that are used in its determination of the projected benefit obligation at the beginning of the year to the projected cash flows related to service and interest costs. Historically, the Company estimated the service and interest cost components by applying a single weighted-average discount rate derived from this yield curve. This change is being made to better align the projected benefit cash flows and the corresponding yield curve spot rates to provide a better estimate of service and interest cost components of net periodic benefit costs, consistent with the methodology used to estimate the projected benefit obligation for each of the benefit plans.

This change does not affect the measurement of the Company's total benefit obligations as the change in the service cost and interest cost is completely offset in the actuarial (gain) loss reported for the period. The change will result in a reduction of the service and interest cost components of net periodic benefit costs for 2016 of $6 million and $30 million, respectively. The weighted average discount rates that will be used to measure service and interest cost during 2016 are 4.77% and 3.64%, respectively, for the domestic qualified pension plan, 4.53% and 3.47%, respectively, for the domestic nonqualified pension plan and 0.00% and 3.53%, respectively, for the domestic postretirement benefit plan. The discount rate associated with the service cost component of the domestic postretirement benefit plan is zero as it is a closed plan and all participants are fully vested. Under the Company's prior estimation approach, the weighted average discount rate for both the service and interest cost components would have been 4.50% for the domestic qualified pension plan, 4.37% for the domestic nonqualified pension plan and 4.35% for the domestic postretirement benefit plan. The Company will account for the change in estimation approach as a change in estimate, and accordingly, will recognize the effect prospectively beginning in 2016.

At December 31, 2015, the Company updated its mortality assumptions for estimating its qualified pension plan liabilities utilizing a new mortality improvement scale issued by the Society of Actuaries in October 2015. The adoption of the new mortality improvement scale decreased the projected benefit obligation by $57 million at December 31, 2015. At December 31, 2014, the Company updated its mortality assumptions for estimating its qualified pension plan liabilities utilizing a new mortality table and related improvement scale issued by the Society of Actuaries in October 2014. The adoption of the new mortality table and related improvement scale increased the projected benefit obligation by $150 million at December 31, 2014.

The Qualified Plan assets are managed to maximize long-term total return while maintaining an appropriate level of risk. The Company's overall strategy is to achieve a mix of approximately 85% to 90% of investments for long-term growth and 10% to 15% for near-term benefit payments with a diversification of asset types, fund strategies and fund managers. The current target allocations for plan assets are 55% to 65% equity securities and 20% to 40% fixed income securities, with the remainder allocated to short-term securities. For 2016, the Company plans to apply an expected long-term rate of return on plan assets of 7.00%, compared with 7.25% in 2015. The expected rate of return reflects the Company's current expectations with regard to long-term returns in the capital markets, taking into account the pension plan's asset allocation targets, the historical performance and current valuation of U.S. and international equities, and the level of long term interest rate and inflation expectations. The Company's expected long-term rate of return on plan assets also contemplates a return to more normal levels of long-term interest rates in the future.

For further discussion of the pension and other postretirement benefit plans, see note 14 of notes to the consolidated financial statements herein.

Risk-Based Capital

The NAIC has an RBC requirement for most property and casualty insurance companies, which determines minimum capital requirements and is intended to raise the level of protection for policyholder obligations. The Company's U.S. insurance subsidiaries are subject to these NAIC RBC requirements based on laws that have been adopted by individual states. These requirements subject insurers having policyholders' surplus less than that required by the RBC calculation to varying degrees of regulatory action, depending on the level of capital inadequacy. Each of the Company's U.S. insurance subsidiaries had policyholders' surplus at December 31, 2015 significantly above the level at which any RBC regulatory action would occur. Regulators in the jurisdictions in which the Company's foreign insurance subsidiaries are located require insurance companies to maintain certain levels of capital depending on, among other things, the type and amount of insurance policies in force. Each of the Company's foreign insurance subsidiaries had capital significantly above their respective regulatory requirements at December 31, 2015.

Table of Contents

Off-Balance Sheet Arrangements

The Company has entered into certain contingent obligations for guarantees related to selling businesses to third parties, certain investments, third-party loans related to certain investments, certain insurance policy obligations of former insurance subsidiaries and various other indemnifications. See note 16 of notes to the consolidated financial statements herein. The Company does not expect these arrangements will have a material effect on the Company's financial position, changes in financial position, revenues and expenses, results of operations, liquidity, capital expenditures or capital resources.

CRITICAL ACCOUNTING ESTIMATES

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

Claims and Claim Adjustment Expense Reserves

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

	December 31, 2015			December 31, 2014		
(in millions)	**Case**	**IBNR**	**Total**	**Case**	**IBNR**	**Total**
General liability	**$ 5,603**	**$ 7,148**	**$ 12,751**	$ 5,886	$ 7,826	$ 13,712
Commercial property	**719**	**408**	**1,127**	795	496	1,291
Commercial multi-peril	**1,890**	**1,767**	**3,657**	1,849	1,819	3,668
Commercial automobile	**2,069**	**1,259**	**3,328**	2,094	1,249	3,343
Workers' compensation	**10,337**	**8,519**	**18,856**	10,067	8,191	18,258
Fidelity and surety	**229**	**476**	**705**	233	573	806
Personal automobile	**1,710**	**842**	**2,552**	1,737	848	2,585
Homeowners and personal other	**601**	**399**	**1,000**	578	525	1,103
International and other	**2,718**	**1,578**	**4,296**	3,254	1,804	5,058
Property-casualty	**25,876**	**22,396**	**48,272**	26,493	23,331	49,824
Accident and health	**23**		**23**	26		26
Claims and claim adjustment expense reserves	**$ 25,899**	**$ 22,396**	**$ 48,295**	$ 26,519	$ 23,331	$ 49,850

The $1.56 billion decrease in gross claims and claim adjustment expense reserves since December 31, 2014 primarily reflected the impact of (i) payments related to operations in runoff, including a $579 million payment related to the settlement of the Asbestos Direct Action Litigation as described in more detail in note 16 of notes to the consolidated financial statements herein, (ii) net favorable prior year reserve development and (iii) changes in foreign currency exchange rates.

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

Claims and claim adjustment expense reserves represent management's estimate of ultimate unpaid costs of losses and loss adjustment expenses for claims that have been reported and claims that have been incurred but not yet reported (IBNR). Claims and claim adjustment expense reserves do not represent an exact calculation of liability, but instead represent management estimates, generally utilizing actuarial expertise and projection techniques, at a given accounting date. These estimates are expectations of what the ultimate settlement and administration of claims will cost upon final resolution

Table of Contents

in the future, based on the Company's assessment of facts and circumstances then known, review of historical settlement patterns, estimates of trends in claims severity and frequency, expected interpretations of legal theories of liability and other factors. In establishing gross claims and claim adjustment expense reserves, the Company also considers salvage and subrogation. Estimated recoveries from reinsurance are included in "Reinsurance Recoverables" as an asset on the Company's consolidated balance sheet. The claims and claim adjustment expense reserves are reviewed regularly by qualified actuaries employed by the Company.

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

Because establishment of claims and claim adjustment expense reserves is an inherently uncertain process involving estimates, currently established claims and claim adjustment expense reserves may change. The Company reflects adjustments to the reserves in the results of operations in the period the estimates are changed.

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

A portion of the Company's gross claims and claim adjustment expense reserves (totaling $2.36 billion at December 31, 2015) are for asbestos and environmental claims and related litigation. While the ongoing review of asbestos and environmental claims and associated liabilities considers the inconsistencies of court decisions as to coverage, plaintiffs' expanded theories of liability and the risks inherent in complex litigation and other uncertainties, in the opinion of the Company's management, it is possible that the outcome of the continued uncertainties regarding these claims could result in liability in future periods that differs from current reserves by an amount that could be material to the

Table of Contents

Company's future operating results. See the preceding discussion of "Asbestos Claims and Litigation" and "Environmental Claims and Litigation."

General Discussion

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

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

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

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

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

Most general liability policies are written on an occurrence basis. These policies are subject to substantial loss development over time as facts and circumstances change in the years following the policy issuance. The occurrence form, which accounts for much of the reserve development in asbestos and environmental exposures, is also used to provide coverage for construction general liability, including construction defect. Occurrence-based forms of insurance for general liability exposures require substantial projection of loss trends, which can be influenced by a number of factors, including future inflation, judicial interpretations and societal litigation trends (e.g., size of jury awards and propensity of individuals to pursue litigation), among others.

A basic premise in most actuarial analyses is that past patterns demonstrated in the data will repeat themselves in the future, absent a material change in the associated risk factors discussed below.

Table of Contents

To the extent a material change affecting the ultimate claim liability is known, such change is estimated to the extent possible through an analysis of internal company data and, if available and when appropriate, external data. Such a measurement is specific to the facts and circumstances of the particular claim portfolio and the known change being evaluated. Significant structural changes to the available data, product mix or organization can materially impact the reserve estimation process.

Informed judgment is applied throughout the reserving process. This includes the application of various individual experiences and expertise to multiple sets of data and analyses. In addition to actuaries, experts involved with the reserving process also include underwriting and claims personnel and lawyers, as well as other company management. Therefore, management may have to consider varying individual viewpoints as part of its estimation of claims and claim adjustment expense reserves. It is also likely that during periods of significant change, such as a merger, consistent application of informed judgment becomes even more complicated and difficult.

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

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

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

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

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

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

Lastly, significant structural changes to the available data, product mix or organization can also materially impact the reserve estimation process. Events such as mergers increase the inherent

Table of Contents

uncertainty of reserve estimates for a period of time, until stable trends re-establish themselves within the new organization.

Risk factors

The major causes of material uncertainty ("risk factors") generally will vary for each product line, as well as for each separately analyzed component of the product line. In a few cases, such risk factors are explicit assumptions of the estimation method, but in most cases, they are implicit. For example, a method may explicitly assume that a certain percentage of claims will close each year, but will implicitly assume that the legal interpretation of existing contract language will remain unchanged. Actual results will likely vary from expectations for each of these assumptions, causing actual paid losses, as claims are settled in the future, to be different in amount than the reserves being estimated currently.

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

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

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

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

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

Actuarial methods for analyzing and estimating claims and claim adjustment expense reserves

The principal estimation and analysis methods utilized by the Company's actuaries to evaluate management's existing estimates for prior accident periods are the paid development method, the case incurred development method, the Bornhuetter-Ferguson (BF) method, and average value analysis combined with the reported claim development method. The BF method is usually utilized for more recent accident periods, with a transition to other methods as the underlying claim data becomes more voluminous and therefore more credible. These are typically referred to as conventional actuarial methods. (See Glossary for an explanation of these methods).

While these are the principal methods utilized throughout the Company, actuaries evaluating a particular component for a product line have available to them the full range of methods developed within the casualty actuarial profession. The Company's actuaries are also continually monitoring developments within the profession for advances in existing techniques or the creation of new techniques that might improve current and future estimates.

Some components of product line reserves are susceptible to relatively infrequent large claims that can materially impact the total estimate for that component. In such cases, the Company's actuarial analysis generally isolates and analyzes separately such large claims. The reserves excluding such large claims are generally analyzed using the conventional methods described above. The reserves associated with large claims are then analyzed utilizing various methods, such as:

- Estimating the number of large claims and their average values based on historical trends from prior accident periods, adjusted for the current environment and supplemented with actual data for the accident year analyzed to the extent available.

- Utilizing individual claim adjuster estimates of the large claims, combined with continual monitoring of the aggregate accuracy of such claim adjuster estimates. (This monitoring may lead to supplemental adjustments to the aggregate of such claim estimates.)

- Utilizing historic longer-term average ratios of large claims to small claims, and applying such ratios to the estimated ultimate small claims from conventional analysis.

- Ground-up analysis of the underlying exposure (typically used for asbestos and environmental).

The results of such methodologies are subjected to various reasonability and diagnostic tests, including implied incurred-loss-to-earned-premium ratios, non-zero claim severity trends and paid-to-incurred loss ratios. An actual versus expected analysis is also performed comparing actual loss development to expected development embedded within management's best estimate. Additional analyses may be performed based on the results of these diagnostics, including the investigation of other actuarial methods.

The methods described above are generally utilized to evaluate management's existing estimate for prior accident periods. For the initial estimate of the current accident year, the available claim data is typically insufficient to produce a reliable indication. Hence, the initial estimate for an accident year is generally based on an exposure-based method using either expected losses or a loss ratio projection method. The loss ratio method uses the earned premium for the current year multiplied by a projected loss ratio. The projected loss ratio is determined through an analysis of prior periods' experience, using loss trend, rate level differences, mix of business changes and other known or observed factors influencing the current accident year relative to prior accident years. The exact number of prior accident years utilized varies by product line component, based on the stability and consistency of the individual accident year estimates.

Management's estimates

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

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

The Audit Committee of the Board of Directors is responsible for providing oversight of reserving propriety, and annually reviews the process by which the Company establishes reserves.

Discussion of Product Lines

The following section details reserving considerations and common risk factors by product line. There are many additional risk factors that may impact ultimate claim costs. Each risk factor presented will have a different impact on required reserves. Also, risk factors can have offsetting or compounding effects on required reserves. For example, in workers' compensation, the use of expensive medical procedures that result in medical cost inflation may enable workers to return to work faster, thereby lowering indemnity costs. Thus, in almost all cases, it is impossible to discretely measure the effect of a single risk factor and construct a meaningful sensitivity expectation.

In order to provide information on reasonably possible reserving changes by product line, the historical changes in year-end claims and claim adjustment expense reserves over a one-year period are provided for the U.S. product lines. This information is provided for both the Company and the industry for the nine most recent years, and is based on the most recent publicly available data for the reported line(s) that most closely match the individual product line being discussed. These changes were calculated, net of reinsurance, from statutory annual statement data found in Schedule P of those statements, and represent the reported reserve development on the beginning-of-the-year claim liabilities divided by the beginning claim liabilities, all accident years combined, excluding non-defense related claim adjustment expense. Data presented for the Company includes history for the entire Travelers group (U.S. companies only), as required by the statutory reporting instructions promulgated by state regulatory authorities for Schedule P. Comparable data for non-U.S. companies is not available.

General Liability

General liability is generally considered a long tail line, as it takes a relatively long period of time to finalize and settle claims from a given accident year. The speed of claim reporting and claim settlement is a function of the characteristics of claims, including specific coverage provided, the jurisdiction and specific policy provisions such as self-insured retentions, among others. There are numerous components underlying the general liability product line. Some of these have relatively moderate payment patterns (with most of the claims for a given accident year closed within five to seven years), while others can have extreme lags in both reporting and payment of claims (e.g., a reporting lag of a decade or more for "construction defect" claims).

While the majority of general liability coverages are written on an "occurrence" basis, certain general liability coverages (such as those covering management liability or professional liability) are typically insured on a "claims-made" basis.

General liability reserves are generally analyzed as two components: primary and excess/umbrella, with the primary component generally analyzed separately for bodily injury and property damage. Bodily injury liability payments reimburse the claimant for damages pertaining to physical injury as a result of the policyholder's legal obligation arising from non-intentional acts such as negligence, subject to the insurance policy provisions. In some cases the damages can include future wage loss (which is a function of future earnings power and wage inflation) and future medical treatment costs. Property damage liability payments result from damages to the claimant's private property arising from the policyholder's legal obligation for non-intentional acts. In most cases, property damage losses are a function of costs as of the loss date, or soon thereafter.

In addition, sizable or unique exposures are reviewed separately. These exposures include asbestos, environmental, other mass torts, construction defect and large unique accounts that would otherwise distort the analysis. These unique categories often require a very high degree of judgment and require reserve analyses that do not rely on conventional actuarial methods.

Defense costs are also a part of the insured costs covered by liability policies and can be significant, sometimes greater than the cost of the actual paid claims. For some products this risk is mitigated by policy language such that the insured portion of defense costs is included in the policy limit available to pay the claim. Such "defense within the limits" policies are most common for "claims-made" products. When defense costs are outside of the policy limits, the full amount of the policy limit is available to pay claims and the amounts paid for defense costs have no contractual limit.

This line is typically the largest source of reserve estimate uncertainty in the United States (excluding assumed reinsurance contracts covering the same risk). Major contributors to this reserve estimate uncertainty include the reporting lag (i.e., the length of time between the event triggering coverage and the actual reporting of the claim), the number of parties involved in the underlying tort action, whether the "event" triggering coverage is confined to only one time period or is spread over multiple time periods, the potential dollars involved (in the individual claim actions), whether such claims were reasonably foreseeable and intended to be covered at the time the contracts were written (i.e., coverage dispute potential), and the potential for mass claim actions. Claims with longer reporting lags result in greater estimation uncertainty. This is especially true for alleged claims with a latency feature, particularly where courts have ruled that coverage is spread over multiple policy years, hence involving multiple defendants (and their insurers and reinsurers) and multiple policies (thereby increasing the potential dollars involved and the underlying settlement complexity). Claims with long latencies also increase the potential recognition lag (i.e., the lag between writing a type of policy in a certain market and the recognition that such policies have potential mass tort and/or latent claim exposure).

The amount of reserve estimate uncertainty also varies significantly by component for the general liability product line. The components in this product line with the longest latency, longest reporting lags, largest potential dollars involved and greatest claim settlement complexity are asbestos and environmental. Components that include latency, reporting lag and/or complexity issues, but to a materially lesser extent than asbestos and environmental, include construction defect and other mass tort actions. Many components of general liability are not subject to material latency or claim complexity risks and hence have materially less uncertainty than the previously mentioned components. In general, components with shorter reporting lags, fewer parties involved in settlement negotiations, only one policy potentially triggered per claim, fewer potential settlement dollars, reasonably foreseeable (and stable) potential hazards/claims and no mass tort potential result in much less reserve estimate uncertainty than components without those characteristics.

In addition to the conventional actuarial methods mentioned in the general discussion section, the company utilizes various report year development and S-curve methods for the construction defect components of this product line. The Construction Defect report year development analysis is supplemented with projected claim counts and average values for IBNR claim counts. For components with greater lags in claim reporting, such as excess and umbrella components of this product line, the company relies more heavily on the BF method than on the paid and case incurred development methods.

Examples of common risk factors, or perceptions thereof, that could change and, thus, affect the required general liability reserves (beyond those included in the general discussion section) include:

General liability risk factors

- Changes in claim handling philosophies

Table of Contents

- Changes in policy provisions or court interpretation of such provisions
- New or expanded theories of liability
- Trends in jury awards
- Changes in the propensity to sue, in general with specificity to particular issues
- Changes in the propensity to litigate rather than settle a claim
- Changes in statutes of limitations
- Changes in the underlying court system
- Distortions from losses resulting from large single accounts or single issues
- Changes in tort law
- Shifts in lawsuit mix between federal and state courts
- Changes in claim adjuster office structure (causing distortions in the data)
- The potential impact of inflation on loss costs
- Changes in settlement patterns

General liability book of business risk factors

- Changes in policy provisions (e.g., deductibles, policy limits, endorsements)
- Changes in underwriting standards
- Product mix (e.g., size of account, industries insured, jurisdiction mix)

Unanticipated changes in risk factors can affect reserves. As an indicator of the causal effect that a change in one or more risk factors could have on reserves for general liability (excluding asbestos and environmental), a 1% increase (decrease) in incremental paid loss development for each future calendar year could result in a 1.5% increase (decrease) in claims and claim adjustment expense reserves.

Historically, the one-year change in the reserve estimate for this product line, excluding estimated asbestos and environmental amounts, over the last nine years has varied from 8% to 2% (averaging 4%) for the Company, and from 5% to 2% (averaging 3%) for the industry overall.

The Company's year-to-year changes are driven by, and are based on, observed events during the year. The Company believes that its range of historical outcomes is illustrative of reasonably possible one-year changes in reserve estimates for this product line. General liability reserves (excluding asbestos and environmental) represent approximately 22% of the Company's total claims and claim adjustment expense reserves.

The Company's change in reserve estimate for this product line, excluding estimated asbestos and environmental amounts, was 3% for 2015, 5% for 2014 and 4% for 2013. The 2015 change was primarily concentrated in excess coverages for accident years 2005 through 2013, reflecting a more favorable legal environment than what the Company previously expected. The 2014 change was primarily concentrated in excess coverages for accident years 2008 through 2012, reflecting a more favorable legal environment than what the Company previously expected. The 2013 change was primarily concentrated in excess coverages for accident years 2010 and prior, reflecting a more favorable legal environment than what the Company previously expected.

Table of Contents

Commercial Property

Commercial property is generally considered a short tail line with a simpler and faster claim reporting and adjustment process than liability coverages, and less uncertainty in the reserve setting process (except for more complex business interruption claims). It is generally viewed as a moderate frequency, low to moderate severity line, except for catastrophes and coverage related to large properties. The claim reporting and settlement process for property coverage claim reserves is generally restricted to the insured and the insurer. Overall, the claim liabilities for this line create a low estimation risk, except possibly for catastrophes and business interruption claims.

Commercial property reserves are typically analyzed in two components, one for catastrophic or other large single events, and another for all other events. Examples of common risk factors, or perceptions thereof, that could change and, thus, affect the required property reserves (beyond those included in the general discussion section) include:

Commercial property risk factors

- Physical concentration of policyholders
- Availability and cost of local contractors
- For the more severe catastrophic events, "demand surge" inflation, which refers to significant short-term increases in building material and labor costs due to a sharp increase in demand for those materials and services
- Local building codes
- Amount of time to return property to full usage (for business interruption claims)
- Frequency of claim re-openings on claims previously closed
- Court interpretation of policy provisions (such as occurrence definition, or wind versus flooding)
- Lags in reporting claims (e.g., winter damage to summer homes, hidden damage after an earthquake, hail damage to roofs and/or equipment on roofs)
- Court or legislative changes to the statute of limitations

Commercial property book of business risk factors

- Policy provisions mix (e.g., deductibles, policy limits, endorsements)
- Changes in underwriting standards

Unanticipated changes in risk factors can affect reserves. As an indicator of the causal effect that a change in one or more risk factors could have on reserves for property, a 1% increase (decrease) in incremental paid loss development for each future calendar year could result in a 1.1% increase (decrease) in claims and claim adjustment expense reserves.

Historically, the one-year change in the reserve estimate for this product line over the last nine years has varied from 25% to 5% (averaging 17%) for the Company, and from 14% to 5% (averaging 8%) for the industry overall. The Company's year-to-year changes are driven by, and are based on, observed events during the year. The Company believes that its range of historical outcomes is illustrative of reasonably possible one-year changes in reserve estimates for this product line. Commercial property reserves represent approximately 2% of the Company's total claims and claim adjustment expense reserves.

Since commercial property is considered a short tail coverage, the one year change for commercial property can be more volatile than that for the longer tail product lines. This is due to the fact that the

Table of Contents

majority of the reserve for commercial property relates to the most recent accident year, which is subject to the most uncertainty for all product lines. This recent accident year uncertainty is relevant to commercial property because of weather-related events which, notwithstanding 2013 through 2015 experience, tend to be concentrated in the second half of the year, and generally are not completely resolved until the following year. Reserve estimates associated with major catastrophes may take even longer to resolve. The reserve estimates for this product line are also potentially subject to material changes due to uncertainty in measuring ultimate losses for significant catastrophes such as the events of September 11, 2001, Hurricane Katrina and Storm Sandy.

The Company's change in reserve estimate for this product line was 21% for 2015, 18% for 2014 and 17% for 2013. The 2015 change primarily reflected better than expected loss experience related to catastrophe losses for accident years 2011, 2012 and 2014, and non-catastrophe losses for accident years 2013 and 2014. The 2014 change primarily reflected better than expected loss experience for accident years 2010 through 2013, including catastrophe losses from Storm Sandy for accident year 2012. The 2013 change primarily reflected better than expected loss experience related to both catastrophe and non-catastrophe losses for accident years 2010 through 2012.

Commercial Multi-Peril

Commercial multi-peril provides a combination of property and liability coverage typically for small businesses and, therefore, includes both short and long tail coverages. For property coverage, it generally takes a relatively short period of time to close claims, while for the other coverages, generally for the liability coverages, it takes a longer period of time to close claims.

The reserving risk for this line is dominated by the liability coverage portion of this product, except occasionally in the event of catastrophic or large single losses. The reserving risk for this line differs from that of the general liability product line and the property product line due to the nature of the customer. Commercial multi-peril is generally sold to small- to mid-sized accounts, while the customer profile for general liability and commercial property includes larger customers.

See "Commercial property risk factors" and "General liability risk factors," discussed above, with regard to reserving risk for commercial multi-peril.

Unanticipated changes in risk factors can affect reserves. As an indicator of the causal effect that a change in one or more risk factors could have on reserves for commercial multi-peril (excluding asbestos and environmental), a 1% increase (decrease) in incremental paid loss development for each future calendar year could result in a 1.2% increase (decrease) in claims and claim adjustment expense reserves.

Historically, the one-year change in the reserve estimate for this product line over the last nine years has varied from 19% to 5% (averaging 3%) for the Company, and from 6% to 0% (averaging 3%) for the industry overall. The Company's year-to-year changes are driven by, and are based on, observed events during the year. The Company believes that its range of historical outcomes is illustrative of reasonably possible one-year changes in reserve estimates for this product line. Commercial multi-peril reserves (excluding asbestos and environmental reserves) represent approximately 7% of the Company's total claims and claim adjustment expense reserves.

As discussed above, this line combines general liability and commercial property coverages and it has been impacted in the past by many of the same events as those two lines.

The Company's change in reserve estimate for this product line was 1% for 2015, 3% for 2014 and 2% for 2013. The 2015 change primarily reflected better than expected loss experience for property coverages related to non-catastrophe losses for accident years 2012 and 2014. The 2014 change primarily reflected higher than expected loss experience for liability coverages for accident years 2010 through 2013. The 2013 change primarily reflected higher than expected loss experience for liability

Table of Contents

coverages for accident years 2008 through 2011, driven by higher than expected severity and defense costs.

Commercial Automobile

The commercial automobile product line is a mix of property and liability coverages and, therefore, includes both short and long tail coverages. The payments that are made quickly typically pertain to auto physical damage (property) claims and property damage (liability) claims. The payments that take longer to finalize and are more difficult to estimate relate to bodily injury claims. In general, claim reporting lags are minor, claim complexity is not a major issue, and the line is viewed as high frequency, low to moderate severity. Overall, the claim liabilities for this line create a moderate estimation risk.

Commercial automobile reserves are typically analyzed in four components: bodily injury liability; property damage liability; collision claims; and comprehensive claims. These last two components have minimum reserve risk and fast payouts and, accordingly, separate risk factors are not presented.

The Company utilizes the conventional actuarial methods mentioned in the general discussion above in estimating claim liabilities for this line. This is supplemented with detailed custom analyses where needed.

Examples of common risk factors, or perceptions thereof, that could change and, thus, affect the required commercial automobile reserves (beyond those included in the general discussion section) include:

Bodily injury and property damage liability risk factors

- Trends in jury awards
- Changes in the underlying court system
- Changes in case law
- Litigation trends
- Frequency of claims with payment capped by policy limits
- Change in average severity of accidents, or proportion of severe accidents
- Changes in auto safety technology
- Subrogation opportunities
- Changes in claim handling philosophies
- Frequency of visits to health providers
- Number of medical procedures given during visits to health providers

- Types of health providers used
- Types of medical treatments received
- Changes in cost of medical treatments
- Degree of patient responsiveness to treatment

Commercial automobile book of business risk factors

- Changes in policy provisions (e.g., deductibles, policy limits, endorsements, etc.)

Table of Contents

- Changes in mix of insured vehicles (e.g., long haul trucks versus local and smaller vehicles, fleet risks versus non-fleets)
- Changes in underwriting standards

Unanticipated changes in risk factors can affect reserves. As an indicator of the causal effect that a change in one or more risk factors could have on reserves for commercial automobile, a 1% increase (decrease) in incremental paid loss development for each future calendar year could result in a 1.2% increase (decrease) in claims and claim adjustment expense reserves.

Historically, the one-year change in the reserve estimate for this product line over the last nine years has varied from 10% to 7% (averaging 1%) for the Company, and from 3% to 3% (averaging 1%) for the industry overall. The Company's year-to-year changes are driven by, and are based on, observed events during the year. The Company believes that its range of historical outcomes is illustrative of reasonably possible one-year changes in reserve estimates for this product line. Commercial automobile reserves represent approximately 7% of the Company's total claims and claim adjustment expense reserves.

The Company's change in reserve estimate for this product line was 0% for 2015, 2% for 2014 and 1% for 2013. The 2014 change reflected better than expected loss experience for accident years 2011 and 2012.

Workers' Compensation

Workers' compensation is generally considered a long tail coverage, as it takes a relatively long period of time to finalize claims from a given accident year. While certain payments such as initial medical treatment or temporary wage replacement for the injured worker are made quickly, some other payments are made over the course of several years, such as awards for permanent partial injuries. In addition, some payments can run as long as the injured worker's life, such as permanent disability benefits and on-going medical care. Despite the possibility of long payment tails, the reporting lags are generally short, payment obligations are generally not complex, and most of the liability can be considered high frequency with moderate severity. The largest reserve risk generally comes from the low frequency, high severity claims providing lifetime coverage for medical expense arising from a worker's injury, as such claims are subject to greater inflation risk. Overall, the claim liabilities for this line create a somewhat greater than moderate estimation risk.

Workers' compensation reserves are typically analyzed in three components: indemnity losses, medical losses and claim adjustment expenses.

Examples of common risk factors, or perceptions thereof, that could change and, thus, affect the required workers' compensation reserves (beyond those included in the general discussion section) include:

Indemnity risk factors

- Time required to recover from the injury
- Degree of available transitional jobs
- Degree of legal involvement
- Changes in the interpretations and processes of the administrative bodies that oversee workers' compensation claims
- Future wage inflation for states that index benefits
- Changes in the administrative policies of second injury funds

Table of Contents

Medical risk factors

- Changes in the cost of medical treatments (including prescription drugs) and underlying fee schedules ("inflation")
- Frequency of visits to health providers
- Number of medical procedures given during visits to health providers
- Types of health providers used
- Type of medical treatments received
- Use of preferred provider networks and other medical cost containment practices
- Availability of new medical processes and equipment
- Changes in the use of pharmaceutical drugs, including drugs for pain management
- Degree of patient responsiveness to treatment

General workers' compensation risk factors

- Frequency of reopening claims previously closed
- Mortality trends of injured workers with lifetime benefits and medical treatment
- Changes in statutory benefits
- Degree of cost shifting between workers' compensation and health insurance, including Medicare, and the impact, if any, of the Affordable Care Act

Workers' compensation book of business risk factors

- Product mix
- Injury type mix
- Changes in underwriting standards

Unanticipated changes in risk factors can affect reserves. As an indicator of the causal effect that a change in one or more risk factors could have on reserves for workers' compensation, a 1% increase (decrease) in incremental paid loss development for each future calendar year could result in a 1.3% increase (decrease) in claims and claim adjustment expense reserves.

Historically, the one-year change in the reserve estimate for this product line over the last nine years has varied from 2% to 1% (averaging 1%) for the Company, and from 2 to 1% (averaging 1%) for the industry overall. The Company's year-to-year changes are driven by, and are based on, observed events during the year. The Company believes that its range of historical outcomes is illustrative of reasonably possible one-year changes in reserve estimates for this product line. Workers' compensation reserves represent approximately 39% of the Company's total claims and claim adjustment expense reserves.

The Company's change in reserve estimate for this product line was 1% for 2015, 0% for 2014 and 1% for 2013. The 2015 change primarily reflected better than expected loss experience for accident years 2006 and prior.

Fidelity and Surety

Fidelity is generally considered a short tail coverage. It takes a relatively short period of time to finalize and settle most fidelity claims. The volatility of fidelity reserves is generally related to the type of business of the insured, the size and complexity of the insured's business operations, amount of

Table of Contents

policy limit and attachment point of coverage. The uncertainty surrounding reserves for small, commercial insureds is typically less than the uncertainty for large commercial or financial institutions. The high frequency, low severity nature of small commercial fidelity losses provides for stability in loss estimates, whereas the low frequency, high severity nature of losses for large insureds results in a wider range of ultimate loss outcomes. Actuarial techniques that rely on a stable pattern of loss development are generally not applicable to low frequency, high severity claims.

Surety has certain components that are generally considered short tail coverages with short reporting lags, although large individual construction and commercial surety contracts can result in a long settlement tail, based on the length and complexity of the construction project(s) or commercial transaction being insured. (Large construction projects can take many years to complete.) The frequency of losses in surety generally correlates with economic cycles as the primary cause of surety loss is the inability of an insured to fulfill its contractual obligations. The Company actively seeks to mitigate this exposure to loss through disciplined risk selection, adherence to underwriting standards and ongoing monitoring of contractor progress in significant construction projects. The volatility of surety losses is generally related to the type of business performed by the insured, the type of bonded obligation, the amount of limit exposed to loss and the amount of assets available to the insurer to mitigate losses, such as unbilled contract funds, collateral, first and third party indemnity, and other security positions of an insured's assets. Certain classes of surety claims are very high severity, low frequency in nature. These can include large construction contractors involved with one or multiple large, complex projects as well as certain large commercial surety exposures. Other claim factors affecting reserve variability of surety include litigation related to amounts owed by and due the insured (e.g., salvage and subrogation efforts) and the results of financial restructuring of an insured.

Examples of common risk factors, or perceptions thereof, that could change and, thus, affect the required fidelity and surety reserves (beyond those included in the general discussion section) include:

Fidelity risk factors

- Type of business of insured
- Policy limit and attachment points
- Third-party claims
- Coverage litigation
- Complexity of claims
- Growth in insureds' operations

Surety risk factors

- Economic trends, including the general level of construction activity
- Concentration of reserves in a relatively few large claims
- Type of business insured
- Type of obligation insured

Cumulative limits of liability for insured

Assets available to mitigate loss

Defective workmanship/latent defects

Financial strategy of insured

Changes in statutory obligations

Table of Contents

Geographic spread of business

Fidelity and Surety book of business risk factors

Changes in policy provisions (e.g., deductibles, limits, endorsements)

Changes in underwriting standards

Unanticipated changes in risk factors can affect reserves. As an indicator of the causal effect that a change in one or more risk factors could have on reserves for fidelity and surety, a 1% increase (decrease) in incremental paid loss development for each future calendar year could result in a 1.3% increase (decrease) in claims and claim adjustment expense reserves.

Historically, the one-year change in the reserve estimate for this product line over the last nine years has varied from 36% to 1% (averaging 14%) for the Company, and from 17% to 1% (averaging 8%) for the industry overall. The Company's year-to-year changes are driven by, and are based on, observed events during the year. The Company believes that its range of historical outcomes is illustrative of reasonably possible one-year changes in reserve estimates for this product line. Fidelity and surety reserves represent approximately 2% of the Company's total claims and claim adjustment expense reserves.

In general, developments on single large claims (both adverse and favorable) are a primary source of changes in reserve estimates for this product line.

The Company's change in reserve estimate for this product line was 30% for 2015, 36% for 2014 and 21% for 2013. The 2015 change was primarily driven by better than expected loss experience in the fidelity and surety product line for accident years 2008 through 2014, which was partially driven by a reduction in outstanding exposures related to the financial crisis that commenced in 2007. The 2014 change reflected better than expected loss experience in the contract surety product line for accident years 2012 and prior. The 2013 change reflected better than expected loss experience in the contract surety product line for accident years 2010 and prior.

Personal Automobile

Personal automobile includes both short and long tail coverages. The payments that are made quickly typically pertain to auto physical damage (property) claims and property damage (liability) claims. The payments that take longer to finalize and are more difficult to estimate relate to bodily injury claims. Reporting lags are relatively short and the claim settlement process for personal automobile liability generally is the least complex of the liability products. It is generally viewed as a high frequency, low to moderate severity product line. Overall, the claim liabilities for this line create a moderate estimation risk.

Personal automobile reserves are typically analyzed in five components: bodily injury liability, property damage liability, no-fault losses, collision claims and comprehensive claims. These last two components have minimum reserve risk and fast payouts and, accordingly, separate factors are not presented.

Examples of common risk factors, or perceptions thereof, that could change and, thus, affect the required personal automobile reserves (beyond those included in the general reserve discussion section) include:

Bodily injury and property damage liability risk factors

Trends in jury awards

Changes in the underlying court system and its philosophy

Changes in case law

147

- Litigation trends
- Frequency of claims with payment capped by policy limits
- Change in average severity of accidents, or proportion of severe accidents
- Subrogation opportunities
- Degree of patient responsiveness to treatment
- Changes in claim handling philosophies

No-fault risk factors (for selected states and time periods)

- Effectiveness of no-fault laws
- Frequency of visits to health providers
- Number of medical procedures given during visits to health providers
- Types of health providers used
- Types of medical treatments received
- Changes in cost of medical treatments
- Degree of patient responsiveness to treatment

Personal automobile book of business risk factors

- Changes in policy provisions (e.g., deductibles, policy limits, endorsements, etc.)
- Changes in underwriting standards
- Changes in the use of credit data for rating and underwriting

Unanticipated changes in risk factors can affect reserves. As an indicator of the causal effect that a change in one or more risk factors could have on reserves for personal automobile, a 1% increase (decrease) in incremental paid loss development for each future calendar year could result in a 1.1% increase (decrease) in claims and claim adjustment expense reserves.

Historically, the one-year change in the reserve estimate for this product line over the last nine years has varied from 5% to 3% (averaging 0%) for the Company, and from 4% to 0% (averaging 2%) for the industry overall. The Company's year-to-year changes are driven by, and are based on, observed events during the year. The Company believes that its range of historical outcomes is illustrative of reasonably possible one-year changes in reserve estimates for this product line. Personal automobile reserves represent approximately 5% of the Company's total claims and claim adjustment expense reserves.

The Company's change in reserve estimate for this product line was 4% for 2015, 1% for 2014 and 1% for 2013. The change for 2015 was primarily driven by better than expected loss experience for liability coverages for accident years 2012 through 2014.

Homeowners and Personal Lines Other

Homeowners is generally considered a short tail coverage. Most payments are related to the property portion of the policy, where the claim reporting and settlement process is generally restricted to the insured and the insurer. Claims on property coverage are typically reported soon after the actual damage occurs, although delays of several months are not unusual. The resulting settlement process is typically fairly short term, although exceptions do exist.

Table of Contents

The liability portion of the homeowners policy generates claims which take longer to pay due to the involvement of litigation and negotiation, but with generally small reporting lags. Personal Lines Other products include personal umbrella policies, among others. See "general liability reserving risk factors," discussed above, for reserving risk factors related to umbrella coverages.

Overall, the line is generally high frequency, low to moderate severity (except for catastrophes), with simple to moderate claim complexity.

Homeowners reserves are typically analyzed in two components: non-catastrophe related losses and catastrophe loss payments.

Examples of common risk factors, or perceptions thereof, that could change and, thus, affect the required homeowners reserves (beyond those included in the general discussion section) include:

Non-catastrophe risk factors

- Salvage opportunities
- Amount of time to return property to residential use
- Changes in weather patterns
- Local building codes
- Litigation trends
- Trends in jury awards
- Court interpretation of policy provisions (such as occurrence definition, or wind versus flooding)
- Lags in reporting claims (e.g., winter damage to summer homes, hidden damage after an earthquake, hail damage to roofs and/or equipment on roofs)
- Court or legislative changes to the statute of limitations

Catastrophe risk factors

- Physical concentration of policyholders
- Availability and cost of local contractors
- Local building codes
- Quality of construction of damaged homes

- Amount of time to return property to residential use
- For the more severe catastrophic events, "demand surge" inflation, which refers to significant short-term increases in building material and labor costs due to a sharp increase in demand for those materials and services

Homeowners book of business risk factors

- Policy provisions mix (e.g., deductibles, policy limits, endorsements, etc.)
- Degree of concentration of policyholders
- Changes in underwriting standards
- Changes in the use of credit data for rating and underwriting

Unanticipated changes in risk factors can affect reserves. As an indicator of the causal effect that a change in one or more risk factors could have on reserves for homeowners and personal lines other,

Table of Contents

a 1% increase (decrease) in incremental paid loss development for each future calendar year could result in a 1.1% increase (decrease) in claims and claim adjustment expense reserves.

Historically, the one-year change in the reserve estimate for this product line (excluding the umbrella line of business, which for statutory reporting purposes is included with the general liability line of business) over the last nine years has varied from 17% to 2% (averaging 11%) for the Company, and from 7% to 2% (averaging 5%) for the industry overall. The Company's year-to-year changes are driven by, and are based on, observed events during the year. The Company believes that its range of historical outcomes is illustrative of reasonably possible one-year changes in reserve estimates for this product line. Homeowners and personal lines other reserves represent approximately 2% of the Company's total claims and claim adjustment expense reserves.

This line combines both liability and property coverages; however, the majority of the reserves relate to property. While property is considered a short tail coverage, the one year change for property can be more volatile than that for the longer tail product lines. This is due to the fact that the majority of the reserve for property relates to the most recent accident year, which is subject to the most uncertainty for all product lines. This recent accident year uncertainty is relevant to property because of weather related events which, notwithstanding 2010 and 2011 experience, tend to be concentrated in the second half of the year, and generally are not completely resolved until the following year. Reserve estimates associated with major catastrophes may take even longer to resolve.

The Company's change in reserve estimate for this product line (excluding the umbrella line of business) was 16% for 2015, 16% for 2014 and 17% for 2013. The 2015 change was primarily driven by better than expected loss experience for liability coverages for accident years 2011 through 2014, and for non-catastrophe weather-related losses and non-weather-related losses for accident year 2014. The 2014 change was primarily driven by better than expected loss experience for non-catastrophe weather-related losses for accident year 2013 and for catastrophe losses for accident years 2011 through 2013. The 2013 change was primarily driven by better than expected loss experience for catastrophe losses incurred in 2012 and non-catastrophe weather-related losses and non-weather-related losses for accident years 2012 and 2011.

International and Other

International and other includes products written by the Company's international operations, as well as all other products not explicitly discussed above. The principal component of "other" claim reserves is assumed reinsurance written on an excess-of-loss basis, which may include reinsurance of non-U.S. exposures, and is runoff business.

International and other claim liabilities result from a mix of coverages, currencies and jurisdictions/countries. The common characteristic is the need to customize the analysis to the individual component, and the inability to rely on data characterizations and reporting requirements in the U.S. statutory reporting framework.

Due to changes in the business mix for this line over time, including the 2013 acquisition of Dominion, the recently incurred claim liabilities are relatively shorter tail (due to both the products and the jurisdictions involved, e.g., Canada, the Republic of Ireland and the United Kingdom), while the older liabilities include some from runoff operations that are extremely long tail (e.g., U.S. excess liabilities reinsured through the London market, and several underwriting pools in runoff). The speed of claim reporting and claim settlement is a function of the specific coverage provided, the jurisdiction, the distribution system (e.g., underwriting pool versus direct) and the proximity of the insurance sale to the insured hazard (e.g., insured and insurer located in different countries). In particular, liabilities arising from the underwriting pools in runoff may result in significant reporting lags, settlement lags and claim complexity, due to the need to coordinate with other pool members or co-insurers through a broker or lead-insurer for claim settlement purposes.

Table of Contents

International reserves are generally analyzed by country and general coverage category (e.g., General Liability in Canada, Commercial Property in the United Kingdom, etc.). The business is also generally split by direct versus assumed reinsurance for a given coverage. Where the underlying insured hazard is outside the United States, the underlying coverages are generally similar to those described under the Homeowners, Personal Automobile, Commercial Automobile, General Liability, Commercial Property and Surety discussions above, taking into account differences in the legal environment and differences in terms and conditions. However, statutory coverage differences exist amongst various jurisdictions. For example, in some jurisdictions there are no aggregate policy limits on certain liability coverages.

Other reserves, primarily assumed reinsurance in runoff, are generally analyzed by program/pool, treaty type, and general coverage category (e.g., General Liability excess of loss reinsurance). Excess exposure requires the insured to "prove" not only claims under the policy, but also the prior payment of claims reaching up to the excess policy's attachment point.

Examples of common risk factors, or perceptions thereof, that could change and, thus, affect the required International and other reserves (beyond those included in the general discussion section, and in the Personal Automobile, Homeowners, General Liability, Commercial Property, Commercial Automobile and Surety discussions above) include:

International and other risk factors

- Changes in claim handling procedures, including those of the primary carriers
- Changes in policy provisions or court interpretation of such provision
- Economic trends
- New theories of liability
- Trends in jury awards
- Changes in the propensity to sue
- Changes in statutes of limitations
- Changes in the underlying court system
- Distortions from losses resulting from large single accounts or single issues
- Changes in tort law
- Changes in claim adjuster office structure (causing distortions in the data)
- Changes in foreign currency exchange rates

International and other book of business risk factors

Changes in policy provisions (e.g., deductibles, policy limits, endorsements, "claims-made" language)

Changes in underwriting standards

Product mix (e.g., size of account, industries insured, jurisdiction mix)

Unanticipated changes in risk factors can affect reserves. As an indicator of the causal effect that a change in one or more risk factors could have on reserves for International and other (excluding asbestos and environmental), a 1% increase (decrease) in incremental paid loss development for each future calendar year could result in a 1.2% increase (decrease) in claims and claim adjustment expense reserves. International and other reserves (excluding asbestos and environmental) represent approximately 9% of the Company's total claims and claim adjustment expense reserves.

Table of Contents

International and other represents a combination of different product lines, some of which are in runoff. Comparative historical information is not available for international product lines as insurers domiciled outside of the U.S. do not file U.S. statutory reports. Comparative historical information on runoff business is not indicative of reasonably possible one-year changes in the reserve estimate for this mix of runoff business. Accordingly, the Company has not included comparative analyses for International and other.

Reinsurance Recoverables

Amounts recoverable from reinsurers are estimated in a manner consistent with the associated claim liability. The Company evaluates and monitors the financial condition of its reinsurers under voluntary reinsurance arrangements to minimize its exposure to significant losses from reinsurer insolvencies. In addition, in the ordinary course of business, the Company becomes involved in coverage disputes with its reinsurers. Some of these disputes could result in lawsuits and arbitrations brought by or against the reinsurers to determine the Company's rights and obligations under the various reinsurance agreements. The Company employs dedicated specialists and aggressive strategies to manage reinsurance collections and disputes.

The Company has entered into two reinsurance contracts in connection with catastrophe bonds issued by Long Point Re III. Both of these contracts meet the requirements to be accounted for as reinsurance in accordance with guidance for accounting for reinsurance contracts. The catastrophe bonds are described in more detail in "Item 1 Business Catastrophe Reinsurance."

The Company reports its reinsurance recoverables net of an allowance for estimated uncollectible reinsurance recoverables. The allowance is based upon the Company's ongoing review of amounts outstanding, length of collection periods, changes in reinsurer credit standing, disputes, applicable coverage defenses and other relevant factors. Accordingly, the establishment of reinsurance recoverables and the related allowance for uncollectible reinsurance recoverables is also an inherently uncertain process involving estimates. From time to time, as a result of the long-tailed nature of the underlying liabilities, coverage complexities and potential for disputes, the Company considers the commutation of reinsurance contracts. Changes in estimated reinsurance recoverables and commutation activity could result in additional income statement charges.

Recoverables attributable to structured settlements relate primarily to personal injury claims, of which workers' compensation claims comprise a significant portion, for which the Company has purchased annuities and remains contingently liable in the event of a default by the companies issuing the annuities. Recoverables attributable to mandatory pools and associations relate primarily to workers' compensation service business. These recoverables are supported by the participating insurance companies' obligation to pay a pro rata share based on each company's voluntary market share of written premium in each state in which it is a pool participant. In the event a member of a mandatory pool or association defaults on its share of the pool's or association's obligations, the other members' share of such obligation increases proportionally.

For a discussion of a pending reinsurance dispute pertaining to a portion of the Company's reinsurance recoverable from the Munich Re Group, see note 16 of notes to the consolidated financial statements herein.

Investment Valuation and Impairments

Fair Value Measurements

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

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

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

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

Valuation of Investments Reported at Fair Value in Financial Statements

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

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

Fixed Maturities

The Company utilized a pricing service to estimate fair value measurements for approximately 98% of its fixed maturities at both December 31, 2015 and 2014. The pricing service utilizes market quotations for fixed maturity securities that have quoted prices in active markets. Since fixed maturities other than U.S. Treasury securities generally do not trade on a daily basis, the pricing service prepares estimates of fair value measurements for these securities using its proprietary pricing applications, which include available relevant market information, benchmark curves, benchmarking of like securities, sector groupings and matrix pricing. Additionally, the pricing service uses an Option Adjusted Spread model to develop prepayment and interest rate scenarios.

Table of Contents

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

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

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

The Company reviews the estimates of fair value provided by the pricing service and compares the estimates to the Company's knowledge of the market to determine if the estimates obtained are representative of the prices in the market. In addition, the Company has periodic discussions with the pricing service to discuss and understand any changes in process and their responsiveness to changes occurring in the markets. The Company produces a report monthly that lists all price changes from the previous month in excess of 10%. The Company reviews the report and will challenge any prices deemed not to be representative of fair value. In addition, the Company has implemented various other processes including randomly selecting purchased or sold securities and comparing execution prices to the estimates from the pricing service as well as reviewing reports that contain securities whose valuation did not change from their previous valuation (stale price review). The Company also uses an additional independent pricing service to further test the primary pricing service's valuation of the Company's fixed maturity portfolio. These processes have not highlighted any significant issues with the fair value estimates received from the pricing service.

The Company also holds certain fixed maturity investments which are not priced by the pricing service and, accordingly, estimates the fair value of such fixed maturities using an internal matrix that is based on market information regarding interest rates, credit spreads and liquidity. The underlying source data for calculating the matrix of credit spreads relative to the U.S. Treasury curve are the BofA Merrill Lynch U.S. Corporate Index and the BofA Merrill Lynch High Yield BB Rated Index. The Company includes the fair value estimates of these corporate bonds in Level 2, since all significant inputs are market observable.

While the vast majority of the Company's fixed maturities are included in Level 2, the Company holds a number of municipal bonds and corporate bonds which are not valued by the pricing service and estimates the fair value of these bonds using an internal pricing matrix with some unobservable inputs that are significant to the valuation. Due to the limited amount of observable market information, the Company includes the fair value estimates for these particular bonds in Level 3. The fair value of the fixed maturities for which the Company used an internal pricing matrix was $101 million and $92 million at December 31, 2015 and 2014, respectively. Additionally, the Company holds a small amount of other fixed maturity investments that have characteristics that make them unsuitable for matrix pricing. For these fixed maturities, the Company obtains a quote from a broker (primarily the market maker). The fair value of the fixed maturities for which the Company received a

Table of Contents

broker quote was $117 million and $140 million at December 31, 2015 and 2014, respectively. Due to the disclaimers on the quotes that indicate that the price is indicative only, the Company includes these fair value estimates in Level 3.

Non-Fixed Maturities and Other Investments Not Reported at Fair Value

See note 4 of notes to the consolidated financial statements herein for a discussion of the determination of fair value of non-fixed maturities and valuation of investments not reported at fair value in the financial statements.

Investment Impairments

The Company conducts a periodic review to identify and evaluate invested assets having other-than-temporary impairments. Some of the factors considered in identifying other-than-temporary impairments include: (1) for fixed maturity investments, whether the Company intends to sell the investment or whether it is more likely than not that the Company will be required to sell the investment prior to an anticipated recovery in value; (2) for non-fixed maturity investments, the Company's ability and intent to retain the investment for a reasonable period of time sufficient to allow for an anticipated recovery in value; (3) the likelihood of the recoverability of principal and interest for fixed maturity securities (i.e., whether there is a credit loss) or cost for equity securities; (4) the length of time and extent to which the fair value has been less than amortized cost for fixed maturity securities or cost for equity securities; and (5) the financial condition, near-term and long-term prospects for the issuer, including the relevant industry conditions and trends, and implications of rating agency actions and offering prices.

Other-Than-Temporary Impairments of Fixed Maturities and Equity Securities

For fixed maturity investments that the Company does not intend to sell or for which it is more likely than not that the Company would not be required to sell before an anticipated recovery in value, the Company separates the credit loss component of the impairment from the amount related to all other factors and reports the credit loss component in net realized investment gains (losses). The impairment related to all other factors is reported in other comprehensive income.

For equity securities (including public common and non-redeemable preferred stock) and for fixed maturity investments the Company intends to sell or for which it is more likely than not that the Company will be required to sell before an anticipated recovery in value, the full amount of the impairment is included in net realized investment gains (losses).

Upon recognizing an other-than-temporary impairment, the new cost basis of the investment is the previous amortized cost basis less the other-than-temporary impairment recognized in net realized investment gains (losses). The new cost basis is not adjusted for any subsequent recoveries in fair value; however, for fixed maturity investments the difference between the new cost basis and the expected cash flows is accreted on a quarterly basis to net investment income over the remaining expected life of the investment.

Due to the subjective nature of the Company's analysis and estimates of future cash flows, along with the judgment that must be applied in the analysis, it is possible that the Company could reach a different conclusion whether or not to impair a security if it had access to additional information about the issuer. Additionally, it is possible that the issuer's actual ability to meet contractual obligations may be different than what the Company determined during its analysis, which may lead to a different impairment conclusion in future periods.

See note 1 of notes to the consolidated financial statements herein for a further discussion of investment impairments.

Table of Contents

Goodwill and Other Intangible Assets Impairments

See note 1 of notes to the consolidated financial statements herein for a discussion of impairments of goodwill and other intangible assets.

OTHER UNCERTAINTIES

For a discussion of other risks and uncertainties that could impact the Company's results of operations or financial position, see note 16 of notes to the consolidated financial statements and "Item 1A Risk Factors" herein.

FUTURE APPLICATION OF ACCOUNTING STANDARDS

See note 1 of the notes to the consolidated financial statements herein for a discussion of recently issued accounting standards updates.

The Company is required to prepare its financial statements in accordance with U.S. Generally Accepted Accounting Principles (GAAP), as promulgated by the Financial Accounting Standards Board (FASB). Since 2002 the Securities and Exchange Commission (SEC) has been evaluating whether, when and how International Financial Reporting Standards (IFRS) should be incorporated into the U.S. financial reporting system. This initiative resulted in a bilateral convergence program of the FASB and the International Accounting Standards Board (IASB) that is winding down. As a result of this initiative, the FASB has implemented a three-part strategy for seeking greater comparability in accounting standards internationally going forward that is not exclusively based on coordination with the IASB:

1. Developing high-quality GAAP standards;
2. Actively participating in the development of IFRS; and
3. Enhancing relationships and communications with other national standards setters.

More recently, the SEC is seeking feedback on other alternatives that might be explored in addition to further incorporation of or alignment with IFRS. Allowing U.S. companies to provide voluntary, supplemental IFRS-based financial information in addition to the required GAAP financial statements was cited as an example of such an alternative. Under this concept, the IFRS information would not be considered "non-GAAP" information. As a result, U.S. companies would not be required to reconcile the IFRS information with the required GAAP financial statements.

As the formal bilateral convergence program winds down, the FASB and IASB are expected to complete the projects that address the following significant areas of accounting:

Accounting for Insurance Contracts: In February 2014, the FASB discontinued its full insurance project and instead decided to make targeted changes to U.S. GAAP for insurance contracts. The FASB decided to retain the current measurement and presentation of property and casualty insurance contracts in the financial statements and issue new, expanded disclosure requirements that are effective with 2016 year-end reporting.

Accounting for Financial Instruments: In 2014, the IASB issued a final financial instruments standard with an effective date of January 1, 2018. The FASB instead addressed the financial instruments project in three phases; recognition and measurement, impairment, and hedge accounting. In January 2016, the FASB issued an accounting standards update to financial instruments guidance for recognition and measurement, including impairment guidance related to equity investments, with an effective date of January 1, 2018. The targeted changes essentially achieved convergence in the major areas of recognition and measurement for equity investments. The FASB has tentatively decided on a

Table of Contents

different model for impairments of debt financial instruments than the IASB and is expected to issue a final update, *Financial Instruments Credit Losses*, in 2016.

Accounting for Leases: Both the FASB and IASB have been working on the accounting for leases project. The FASB has concluded that a dual approach for lessee accounting (operating and finance leases) is appropriate and is expected to issue a new standard shortly, while the IASB has issued a standard that uses a single model approach (finance lease). Accordingly these two models will have differences in income statement presentation.

As a result of these actions, the FASB and IASB will have different insurance, financial instrument and lease accounting standards that could result in the Company having to apply accounting standards for its consolidated financial statements that are different from the accounting standard used for local reporting in foreign jurisdictions.

FORWARD-LOOKING STATEMENTS

This report contains, and management may make, certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, may be forward-looking statements. 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. 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, premium volume, premium rates, margins, net and operating income, investment income and performance, loss costs, return on equity, and expected current returns and combined ratios);
- 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, 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 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.

For a discussion of some of the factors that could cause actual results to differ, see "Item 1A Risk Factors" and "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations."

The Company's forward-looking statements speak only as of the date of this report or as of the date they are made, and the Company undertakes no obligation to update its forward-looking statements.

Table of Contents

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

MARKET RISK

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates (inclusive of credit spreads), foreign currency exchange rates and other relevant market rate or price changes. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying assets are traded. The following is a discussion of the Company's primary market risk exposures and how those exposures are managed as of December 31, 2015. The Company's market risk sensitive instruments, including derivatives, are primarily entered into for purposes other than trading.

The carrying value of the Company's investment portfolio at December 31, 2015 and 2014 was $70.47 billion and $73.26 billion, respectively, of which 86% and 87% was invested in fixed maturity securities, respectively. At December 31, 2015 and 2014, approximately 7.4% and 8.7%, respectively, of the Company's invested assets were denominated in foreign currencies. The Company's exposure to equity price risk is not significant. The Company has no direct commodity risk and is not a party to any credit default swaps.

The primary market risks to the investment portfolio are interest rate risk and credit risk associated with investments in fixed maturity securities. The portfolio duration is primarily managed through cash market transactions and treasury futures transactions. For additional information regarding the Company's investments, see notes 3 and 4 of notes to the consolidated financial statements herein as well as the "Investment Portfolio" and "Outlook" sections of "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations."

The primary market risk for all of the Company's debt is interest rate risk at the time of refinancing. The Company monitors the interest rate environment and evaluates refinancing opportunities as maturity dates approach. For additional information regarding the Company's debt see note 8 of notes to the consolidated financial statements herein as well as the "Liquidity and Capital Resources" section of "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations."

The Company's foreign exchange market risk exposure is concentrated in the Company's invested assets, insurance reserves and shareholders' equity denominated in foreign currencies. Cash flows from the Company's foreign operations are the primary source of funds for the purchase of investments denominated in foreign currencies. The Company purchases these investments primarily to fund insurance reserves and other liabilities denominated in the same currency, effectively reducing its foreign currency exchange rate exposure. Invested assets denominated in the Canadian dollar comprised approximately 4.4% and 5.2% of the total invested assets at December 31, 2015 and 2014, respectively. Invested assets denominated in the British Pound Sterling comprised approximately 2.1% and 2.2% of total invested assets at December 31, 2015 and 2014, respectively. Invested assets denominated in other currencies at December 31, 2015 and 2014 were not material.

There were no other significant changes in the Company's primary market risk exposures or in how those exposures were managed for the year ended December 31, 2015 compared to the year ended December 31, 2014. The Company does not currently anticipate significant changes in its primary market risk exposures or in how those exposures are managed in future reporting periods based upon what is known or expected to be in effect in future reporting periods.

Included in the Company's fixed maturity, equity security and other investment portfolios are exposures to the energy sector. The Company's fixed maturity portfolio at December 31, 2015 included $1.70 billion of securities issued by companies in the energy sector. Approximately 92% of those fixed maturity investments are rated at investment-grade with an average credit rating of "A2," with integrated oil and gas companies representing the largest single industry. The Company's equity securities portfolio at December 31, 2015 included $274 million of holdings directly related to the energy sector, with the majority of holdings concentrated in the energy infrastructure sector. Included in other investments at December 31, 2015 were energy-focused private equity funds totaling $330 million, which are diversified across 52 separate private equity funds. The energy sector has been under pressure due to the lower price of oil. A prolonged downturn in the energy sector could impact the value of the Company's investment portfolio, reduce net investment income and could result in realized and/or unrealized investment losses on these holdings.

SENSITIVITY ANALYSIS

Sensitivity analysis is defined as the measurement of potential loss in future earnings, fair values or cash flows of market sensitive instruments resulting from one or more selected hypothetical changes in interest rates and other market rates or prices over a selected period of time. In the Company's sensitivity analysis model, a hypothetical change in market rates is selected that is expected to reflect reasonably possible near-term changes in those rates. "Near-term" means a period of time going forward up to one year from the date of the consolidated financial statements. Actual results may differ from the hypothetical change in market rates assumed in this disclosure, especially since this sensitivity analysis does not reflect the results of any actions that would be taken by the Company to mitigate such hypothetical losses in fair value.

Interest Rate Risk

In this sensitivity analysis model, the Company uses fair values to measure its potential loss. The sensitivity analysis model includes the following financial instruments entered into for purposes other than trading: fixed maturities, non-redeemable preferred stocks, mortgage loans, short-term securities, debt and derivative financial instruments. The primary market risk to the Company's market sensitive instruments is interest rate risk (inclusive of credit spreads). The sensitivity analysis model uses various basis point changes in interest rates to measure the hypothetical change in fair value of financial instruments included in the model.

For invested assets with primary exposure to interest rate risk, estimates of portfolio duration and convexity are used to model the loss of fair value that would be expected to result from a parallel increase in interest rates. Durations on invested assets are adjusted for call, put and interest rate reset features. Durations on tax-exempt securities are adjusted for the fact that the yields on such securities do not normally move in lockstep with changes in the U.S. Treasury curve. Fixed maturity portfolio durations are calculated on a market value weighted basis, including accrued interest, using holdings as of December 31, 2015 and 2014.

For debt, the change in fair value is determined by calculating hypothetical December 31, 2015 and 2014 ending prices based on yields adjusted to reflect a 100 basis point change, comparing such hypothetical ending prices to actual ending prices, and multiplying the difference by the par or securities outstanding.

The sensitivity analysis model used by the Company produces a loss in fair value of market sensitive instruments of approximately $2.00 billion and $1.77 billion based on a 100 basis point increase in interest rates at December 31, 2015 and 2014, respectively.

The loss estimates do not take into account the impact of possible interventions that the Company might reasonably undertake in order to mitigate or avoid losses that would result from emerging interest rate trends. In addition, the loss value only reflects the impact of an interest rate increase on the fair value of the Company's financial instruments.

Table of Contents

Foreign Currency Exchange Rate Risk

The Company uses fair values of investment securities to measure its potential loss from foreign denominated investments. A hypothetical 10% reduction in value of foreign denominated investments is used to estimate the impact on the market value of the foreign denominated holdings. The Company's analysis indicates that a hypothetical 10% reduction in the value of foreign denominated investments would be expected to produce a loss in fair value of approximately $522 million and $635 million at December 31, 2015 and 2014, respectively.

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
Report of Independent Registered Public Accounting Firm	162
Consolidated Statement of Income for the years ended December 31, 2015, 2014 and 2013	163
Consolidated Statement of Comprehensive Income for the years ended December 31, 2015, 2014 and 2013	164
Consolidated Balance Sheet at December 31, 2015 and 2014	165
Consolidated Statement of Changes in Shareholders' Equity for the years ended December 31, 2015, 2014 and 2013	166
Consolidated Statement of Cash Flows for the years ended December 31, 2015, 2014 and 2013	167
Notes to Consolidated Financial Statements	168

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
The Travelers Companies, Inc.:

We have audited the accompanying consolidated balance sheet of The Travelers Companies, Inc. and subsidiaries (the Company) as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Travelers Companies, Inc. and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), The Travelers Companies, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 11, 2016 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

KPMG LLP
New York, New York
February 11, 2016

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

(in millions, except per share amounts)

For the year ended December 31,	2015	2014	2013
Revenues			
Premiums	**$ 23,874**	$ 23,713	$ 22,637
Net investment income	**2,379**	2,787	2,716
Fee income	**445**	438	395
Net realized investment gains(1)	**3**	79	166
Other revenues	**99**	145	277
Total revenues	**26,800**	27,162	26,191
Claims and expenses			
Claims and claim adjustment expenses	**13,723**	13,870	13,307
Amortization of deferred acquisition costs	**3,885**	3,882	3,821
General and administrative expenses	**4,079**	3,952	3,757
Interest expense	**373**	369	361
Total claims and expenses	**22,060**	22,073	21,246
Income before income taxes	**4,740**	5,089	4,945
Income tax expense	**1,301**	1,397	1,272
Net income	**$ 3,439**	$ 3,692	$ 3,673
Net income per share			
Basic	**$ 10.99**	$ 10.82	$ 9.84
Diluted	**$ 10.88**	$ 10.70	$ 9.74
Weighted average number of common shares outstanding			
Basic	**310.6**	338.8	370.3
Diluted	**313.9**	342.5	374.3
Cash dividends declared per common share	**$ 2.38**	$ 2.15	$ 1.96

(1) Total other-than-temporary impairment (OTTI) losses were $(54) million, $(22) million and $(10) million for the years ended December 31, 2015, 2014 and 2013, respectively. Of total OTTI, credit losses of $(52) million, $(26) million and $(15) million for the years ended December 31, 2015, 2014 and 2013, respectively, were recognized in net realized investment gains. In addition, unrealized gains (losses) from other changes in total OTTI of $(2) million, $4 million and $5 million for the years ended December 31, 2015, 2014 and 2013, respectively, were recognized in other comprehensive income (loss) as part of changes in net unrealized gains on investment securities having credit losses recognized in the consolidated statement of income.

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in millions)

For the year ended December 31,	2015	2014	2013
Net income	**$ 3,439**	$ 3,692	$ 3,673
Other comprehensive income (loss):			
Changes in net unrealized gains on investment securities:			
Having no credit losses recognized in the consolidated statement of income	**(1,020)**	976	(2,734)
Having credit losses recognized in the consolidated statement of income	**(14)**	2	3
Net changes in benefit plan assets and obligations	**66**	(494)	647
Net changes in unrealized foreign currency translation	**(461)**	(289)	(112)
Other comprehensive income (loss) before income taxes	**(1,429)**	195	(2,196)
Income tax expense (benefit)	**(392)**	125	(770)
Other comprehensive income (loss), net of taxes	**(1,037)**	70	(1,426)
Comprehensive income	**$ 2,402**	$ 3,762	$ 2,247

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(in millions)

At December 31,	2015	2014
Assets		
Fixed maturities, available for sale, at fair value (amortized cost $58,878 and $60,801)	**$ 60,658**	$ 63,474
Equity securities, available for sale, at fair value (cost $528 and $579)	**705**	899
Real estate investments	**989**	938
Short-term securities	**4,671**	4,364
Other investments	**3,447**	3,586
Total investments	**70,470**	73,261
Cash	**380**	374
Investment income accrued	**642**	685
Premiums receivable	**6,437**	6,298
Reinsurance recoverables	**8,910**	9,260
Ceded unearned premiums	**656**	678
Deferred acquisition costs	**1,849**	1,835
Deferred taxes	**296**	33
Contractholder receivables	**4,374**	4,362
Goodwill	**3,573**	3,611
Other intangible assets	**279**	304
Other assets	**2,318**	2,377
Total assets	**$ 100,184**	$ 103,078
Liabilities		
Claims and claim adjustment expense reserves	**$ 48,295**	$ 49,850
Unearned premium reserves	**11,971**	11,839
Contractholder payables	**4,374**	4,362
Payables for reinsurance premiums	**296**	336
Debt	**6,344**	6,349
Other liabilities	**5,306**	5,506
Total liabilities	**76,586**	78,242
Shareholders' equity		
Common stock (1,750.0 shares authorized; 295.9 and 322.2 shares issued and outstanding)	**22,172**	21,843
Retained earnings	**29,945**	27,251
Accumulated other comprehensive income (loss)	**(157)**	880
Treasury stock, at cost (467.6 and 437.3 shares)	**(28,362)**	(25,138)
Total shareholders' equity	**23,598**	24,836
Total liabilities and shareholders' equity	**$ 100,184**	$ 103,078

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(in millions)

For the year ended December 31,	2015	2014	2013
Common stock			
Balance, beginning of year	**$ 21,843**	$ 21,500	$ 21,161
Employee share-based compensation	**133**	149	158
Compensation amortization under share-based plans and other changes	**196**	194	181
Balance, end of year	**22,172**	21,843	21,500
Retained earnings			
Balance, beginning of year	**27,251**	24,291	21,352
Net income	**3,439**	3,692	3,673
Dividends	**(744)**	(735)	(734)
Other	**(1)**	3	
Balance, end of year	**29,945**	27,251	24,291
Accumulated other comprehensive income (loss), net of tax			
Balance, beginning of year	**880**	810	2,236
Other comprehensive income (loss)	**(1,037)**	70	(1,426)
Balance, end of year	**(157)**	880	810
Treasury stock, at cost			
Balance, beginning of year	**(25,138)**	(21,805)	(19,344)
Treasury stock acquired share repurchase authorization	**(3,150)**	(3,275)	(2,400)
Net shares acquired related to employee share-based compensation plans	**(74)**	(58)	(61)
Balance, end of year	**(28,362)**	(25,138)	(21,805)
Total shareholders' equity	**$ 23,598**	$ 24,836	$ 24,796

Common shares outstanding			
Balance, beginning of year	**322.2**	353.5	377.4
Treasury stock acquired share repurchase authorization	**(29.6)**	(35.1)	(28.4)
Net shares issued under employee share-based compensation plans	**3.3**	3.8	4.5
Balance, end of year	**295.9**	322.2	353.5

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions)

For the year ended December 31,	**2015**	**2014**	**2013**
Cash flows from operating activities			
Net income	**$ 3,439**	$ 3,692	$ 3,673
Adjustments to reconcile net income to net cash provided by operating activities			
Net realized investment gains	**(3)**	(79)	(166)
Depreciation and amortization	**818**	864	867
Deferred federal income tax expense	**117**	121	167
Amortization of deferred acquisition costs	**3,885**	3,882	3,821
Equity in income from other investments	**(218)**	(486)	(357)
Premiums receivable	**(185)**	(207)	54
Reinsurance recoverables	**272**	400	1,284
Deferred acquisition costs	**(3,920)**	(3,926)	(3,759)
Claims and claim adjustment expense reserves	**(1,075)**	(704)	(2,057)
Unearned premium reserves	**248**	73	27
Other	**56**	63	262
Net cash provided by operating activities	**3,434**	3,693	3,816
Cash flows from investing activities			
Proceeds from maturities of fixed maturities	**11,116**	10,894	7,904
Proceeds from sales of investments:			
Fixed maturities	**1,950**	1,049	1,635
Equity securities	**59**	158	86
Real estate investments	**31**	15	18
Other investments	**713**	855	762
Purchases of investments:			
Fixed maturities	**(12,090)**	(11,325)	(9,467)
Equity securities	**(49)**	(52)	(57)
Real estate investments	**(123)**	(48)	(107)
Other investments	**(534)**	(554)	(446)
Net sales (purchases) of short-term securities	**(326)**	(498)	111
Securities transactions in the course of settlement	**(113)**	82	21
Acquisitions, net of cash acquired	**(13)**	(12)	(997)
Other	**(304)**	(358)	(373)
Net cash provided by (used in) investing activities	**317**	206	(910)
Cash flows from financing activities			
Treasury stock acquired share repurchase authorization	**(3,150)**	(3,275)	(2,400)
Treasury stock acquired net employee share-based compensation	**(74)**	(57)	(61)
Dividends paid to shareholders	**(739)**	(729)	(729)
Payment of debt	**(400)**		(500)
Issuance of debt	**392**		494
Issuance of common stock-employee share options	**183**	195	206
Excess tax benefits from share-based payment arrangements	**55**	57	51
Net cash used in financing activities	**(3,733)**	(3,809)	(2,939)
Effect of exchange rate changes on cash	**(12)**	(10)	(3)
Net increase (decrease) in cash	**6**	80	(36)
Cash at beginning of year	**374**	294	330
Cash at end of year	**$ 380**	$ 374	$ 294

Supplemental disclosure of cash flow information			
Income taxes paid	**$ 1,207**	$ 1,147	$ 1,057
Interest paid	**$ 365**	$ 365	$ 355

The accompanying notes are an integral part of the consolidated financial statements.

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of The Travelers Companies, Inc. (together with its subsidiaries, the Company). The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and claims and expenses during the reporting period. Actual results could differ from those estimates. Certain reclassifications have been made to the 2014 and 2013 financial statements to conform to the 2015 presentation. All material intercompany transactions and balances have been eliminated.

On November 1, 2013, the Company acquired all of the issued and outstanding shares of The Dominion of Canada General Insurance Company (Dominion) for an aggregate purchase price of approximately $1.035 billion. Dominion primarily markets personal lines and small commercial insurance business in Canada. At the acquisition date, the Company recorded at fair value $3.91 billion of assets acquired and $2.88 billion of liabilities assumed as part of purchase accounting, including $16 million of identifiable intangible assets and $273 million of goodwill. Dominion is included in the Company's Business and International Insurance segment. The unearned premium reserve related to the acquired insurance and reinsurance contracts was carried over and included in the Company's unearned premium reserve. Premium revenue from the acquired business is recognized on a pro rata basis beginning with the acquisition date over the remaining policy terms in accordance with the Company's accounting policy. The Company recognized an intangible asset for the value of business acquired (VOBA) of $76 million at the acquisition date. VOBA represented the present value of future gross profits of the business acquired from Dominion, was reported as part of the Company's deferred acquisition costs, and was amortized in proportion to the premium revenue recognized from the acquired business.

Adoption of Accounting Standards

Presentation of Financial Statements and Property, Plant, and Equipment: Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity

In April 2014, the Financial Accounting Standards Board (FASB) issued revised guidance to reduce diversity in practice for reporting discontinued operations. Under the previous guidance, any component of an entity that was a reportable segment, an operating segment, a reporting unit, a subsidiary or an asset group was eligible for discontinued operations presentation. The revised guidance only allows disposals of components of an entity that represent a strategic shift (e.g., disposal of a major geographical area, a major line of business, a major equity method investment or other major parts of an entity) and that have a major effect on a reporting entity's operations and financial results to be reported as discontinued operations. The revised guidance also requires expanded disclosure in the financial statements for discontinued operations as well as for disposals of significant components of an entity that do not qualify for discontinued operations presentation. The updated guidance was effective for the quarter ending March 31, 2015. The adoption of this guidance did not have any effect on the Company's results of operations, financial position or liquidity.

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Accounting Standards Not Yet Adopted

Revenue from Contracts with Customers

In May 2014, the FASB issued updated guidance to clarify the principles for recognizing revenue. While insurance contracts are not within the scope of this updated guidance, the Company's fee income related to providing claims and policy management services as well as claim and loss prevention services will be subject to this updated guidance.

The updated guidance requires an entity to recognize revenue as performance obligations are met, in order to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration the entity is entitled to receive for those goods or services. The following steps are applied in the updated guidance: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the entity satisfies a performance obligation.

In July 2015, the FASB deferred the effective date of the updated guidance by one year. The updated guidance is effective for the quarter ending March 31, 2018. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

Compensation Stock Compensation: Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period

In June 2014, the FASB issued updated guidance to resolve diversity in practice concerning employee share-based payments that contain performance targets that could be achieved after the requisite service period. Many reporting entities account for performance targets that could be achieved after the requisite service period as performance conditions that affect the vesting of the award and, therefore, do not reflect the performance targets in the estimate of the grant-date fair value of the award. Other reporting entities treat those performance targets as nonvesting conditions that affect the grant-date fair value of the award.

The updated guidance requires that a performance target that affects vesting and that can be achieved after the requisite service period be treated as a performance condition. As such, the performance target that affects vesting should not be reflected in estimating the fair value of the award at the grant date. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the periods for which service has been rendered. If the performance target becomes probable of being achieved before the end of the service period, the remaining unrecognized compensation cost for which requisite service has not yet been rendered is recognized prospectively over the remaining service period. The total amount of compensation cost recognized during and after the service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest.

The updated guidance is effective for annual and interim periods beginning after December 15, 2015, with early adoption permitted. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Presentation of Financial Statements: Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern

In August 2014, the FASB issued guidance to address the diversity in practice in determining when there is substantial doubt about an entity's ability to continue as a going concern and when an entity must disclose certain relevant conditions and events. The new guidance requires an entity to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or available to be issued). The new guidance allows the entity to consider the mitigating effects of management's plans that will alleviate the substantial doubt and requires certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans. If conditions or events raise substantial doubt that is not alleviated, an entity should disclose that there is substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or available to be issued), along with the principal conditions or events that raise substantial doubt, management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations and management's plans that are intended to mitigate those conditions. The guidance is effective for annual periods ending after December 15, 2016, and interim and annual periods thereafter.

Derivatives and Hedging: Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity

In November 2014, the FASB issued updated guidance to clarify when the separation of certain embedded derivative features in a hybrid financial instrument that is issued in the form of a share is required. That is, an entity will continue to evaluate whether the economic characteristics and risks of the embedded derivative feature are clearly and closely related to those of the host contract. Specifically, the amendments clarify that an entity should consider all relevant terms and features, including the embedded derivative feature being evaluated for bifurcation, in evaluating the nature of the host contract. Furthermore, the amendments clarify that no single term or feature would necessarily determine the economic characteristics and risks of the host contract. Rather, the nature of the host contract depends upon the economic characteristics and risks of the entire hybrid financial instrument. The updated guidance is effective for reporting periods beginning after December 15, 2015. Early adoption is permitted. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

Consolidation: Amendments to the Consolidation Analysis

In February 2015, the FASB issued updated guidance that makes targeted amendments to the current consolidation accounting guidance. The update is in response to accounting complexity concerns, particularly from the asset management industry. The guidance simplifies consolidation accounting by reducing the number of approaches to consolidation, provides a scope exception to registered money market funds and similar unregistered money market funds and ends the indefinite deferral granted to investment companies from applying the variable interest entity guidance. The updated guidance is effective for annual and interim periods beginning after December 15, 2015. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs

In April 2015, the FASB issued updated guidance to clarify the required presentation of debt issuance costs. The amended guidance requires that debt issuance costs be presented in the balance sheet as a direct reduction from the carrying amount of the recognized debt liability, consistent with the treatment of debt discounts. Amortization of debt issuance costs is to be reported as interest expense. The recognition and measurement guidance for debt issuance costs are not affected by the updated guidance. The updated guidance is effective for reporting periods beginning after December 15, 2015. Early adoption is permitted. The updated guidance is consistent with the Company's accounting policy and its adoption will not have any effect on the Company's results of operations, financial position or liquidity.

Business Combinations: Simplifying the Accounting for Measurement-Period Adjustments

In September 2015, the FASB issued updated guidance regarding business combinations that requires an acquirer to recognize post-close measurement adjustments for provisional amounts in the period the adjustment amounts are determined rather than retrospectively. The acquirer is also required to recognize, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the provisional amount, calculated as if the accounting had been completed at the acquisition date. The updated guidance is to be applied prospectively effective for annual and interim periods beginning after December 15, 2015. In connection with business combinations which have already been completed, the adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

Financial Instruments Overall: Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued updated guidance to address the recognition, measurement, presentation, and disclosure of certain financial instruments. The updated guidance requires equity investments, except those accounted for under the equity method of accounting, that have readily determinable fair value to be measured at fair value with changes in fair value recognized in net income. Equity investments that do not have readily determinable fair values may be remeasured at fair value either upon the occurrence of an observable price change or upon identification of an impairment. A qualitative assessment for impairment is required for equity investments without readily determinable fair values. The updated guidance also eliminates the requirement to disclose the method and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost on the balance sheet. The updated guidance is effective for the quarter ending March 31, 2018 and will require recognition of a cumulative effect adjustment at adoption. The Company will not be able to determine the impact that the updated guidance will have on its results of operations until the updated guidance is adopted, but does not currently expect the adoption of this guidance to impact its financial position or liquidity.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Policies

Investments

Fixed Maturity and Equity Securities

Fixed maturities include bonds, notes and redeemable preferred stocks. Fixed maturities, including instruments subject to securities lending agreements, are classified as available for sale and are reported at fair value, with unrealized investment gains and losses, net of income taxes, charged or credited directly to other comprehensive income. Equity securities, which include public common and non-redeemable preferred stocks, are classified as available for sale with changes in fair value, net of income taxes, charged or credited directly to other comprehensive income.

Real Estate Investments

The Company's real estate investments include warehouses, office buildings and other commercial land and properties that are directly owned. Real estate is recorded on the purchase date at the purchase price, which generally represents fair value, and is supported by internal analysis or external appraisals that use discounted cash flow analyses and other acceptable valuation techniques. Real estate held for investment purposes is subsequently carried at cost less accumulated depreciation.

Buildings are depreciated on a straight-line basis over the shorter of the expected useful life of the building or 39 years. Real estate held for sale is carried at lower of cost or fair value, less estimated costs to sell.

Short-term Securities

Short-term securities have an original maturity of less than one year and are carried at amortized cost, which approximates fair value.

Other Investments

Investments in Private Equity Limited Partnerships, Hedge Funds and Real Estate Partnerships

The Company uses the equity method of accounting for investments in private equity limited partnerships, hedge funds and real estate partnerships. The partnerships and the hedge funds generally report investments on their balance sheet at fair value. The financial statements prepared by the investee are received by the Company on a lag basis, with the lag period generally dependent upon the type of underlying investments. The private equity and real estate partnerships provide financial information quarterly which is generally available to investors, including the Company, within three to six months following the date of the reporting period. The hedge funds provide financial information monthly, which is generally available to investors within one month following the date of the reporting period. The Company regularly requests financial information from the partnerships prior to the receipt of the partnerships' financial statements and records any material information obtained from these requests in its consolidated financial statements.

Other

Also included in other investments are non-public common equities, preferred equities and derivatives. Non-public common equities and preferred equities are reported at fair value with changes

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

in fair value, net of income taxes, charged or credited directly to other comprehensive income. The Company's derivative financial instruments are carried at fair value, with the changes in fair value reflected in the consolidated statement of income in net realized investment gains (losses). For a further discussion of the derivatives used by the Company, see note 3.

Net Investment Income

Investment income from fixed maturities is recognized based on the constant effective yield method which includes an adjustment for estimated principal pre-payments, if any. The effective yield used to determine amortization for fixed maturities subject to prepayment risk (e.g., asset-backed, loan-backed and structured securities) is recalculated and adjusted periodically based upon actual historical and/or projected future cash flows, which are obtained from a widely-accepted securities data provider. The adjustments to the yield for highly rated prepayable fixed maturities are accounted for using the retrospective method. The adjustments to the yield for non-highly rated prepayable fixed maturities are accounted for using the prospective method. Dividends on equity securities (including those with transfer restrictions) are recognized in income when declared. Rental income on real estate is recognized on a straight-line basis over the lease term. See note 3 for further discussion. Investments in private equity limited partnerships, hedge funds, real estate partnerships and joint ventures are accounted for using the equity method of accounting, whereby the Company's share of the investee's earnings or losses in the fund is reported in net investment income.

Accrual of income is suspended on non-securitized fixed maturities that are in default, or on which it is likely that future payments will not be made as scheduled. Interest income on investments in default is recognized only when payments are received. Investments included in the consolidated balance sheet that were not income-producing for the preceding 12 months were not material.

For fixed maturities where the Company records an other-than-temporary impairment, a determination is made as to the cause of the impairment and whether the Company expects a recovery in the value. For fixed maturities where the Company expects a recovery in value, not necessarily to par, the constant effective yield method is utilized, and the investment is amortized to the expected recovery amount.

Investment Gains and Losses

Net realized investment gains and losses are included as a component of pretax revenues based upon specific identification of the investments sold on the trade date. Included in net realized investment gains (losses) are other-than-temporary impairment losses on invested assets other than those investments accounted for using the equity method of accounting as described in the "Investment Impairments" section that follows.

Investment Impairments

The Company conducts a periodic review to identify and evaluate invested assets having other-than-temporary impairments. Some of the factors considered in identifying other-than-temporary impairments include: (1) for fixed maturity investments, whether the Company intends to sell the investment or whether it is more likely than not that the Company will be required to sell the investment prior to an anticipated recovery in value; (2) for non-fixed maturity investments, the Company's ability and intent to retain the investment for a reasonable period of time sufficient to allow

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

for an anticipated recovery in value; (3) the likelihood of the recoverability of principal and interest for fixed maturity securities (i.e., whether there is a credit loss) or cost for equity securities; (4) the length of time and extent to which the fair value has been less than amortized cost for fixed maturity securities or cost for equity securities; and (5) the financial condition, near-term and long-term prospects for the issuer, including the relevant industry conditions and trends, and implications of rating agency actions and offering prices.

Other-Than-Temporary Impairments of Fixed Maturities and Equity Securities

For fixed maturity investments that the Company does not intend to sell or for which it is more likely than not that the Company would not be required to sell before an anticipated recovery in value, the Company separates the credit loss component of the impairment from the amount related to all other factors and reports the credit loss component in net realized investment gains (losses). The impairment related to all other factors is reported in other comprehensive income.

For equity securities (including public common and non-redeemable preferred stock) and for fixed maturity investments the Company intends to sell or for which it is more likely than not that the Company will be required to sell before an anticipated recovery in value, the full amount of the impairment is included in net realized investment gains (losses).

Upon recognizing an other-than-temporary impairment, the new cost basis of the investment is the previous amortized cost basis less the other-than-temporary impairment recognized in net realized investment gains (losses). The new cost basis is not adjusted for any subsequent recoveries in fair value; however, for fixed maturity investments the difference between the new cost basis and the expected cash flows is accreted on a quarterly basis to net investment income over the remaining expected life of the investment.

Determination of Credit Loss Fixed Maturities

The Company determines the credit loss component of fixed maturity investments by utilizing discounted cash flow modeling to determine the present value of the security and comparing the present value with the amortized cost of the security. If the amortized cost is greater than the present value of the expected cash flows, the difference is considered a credit loss and recognized in net realized investment gains (losses).

For non-structured fixed maturities (U.S. Treasury securities, obligations of U.S. government and government agencies and authorities, obligations of states, municipalities and political subdivisions, debt securities issued by foreign governments and certain corporate debt), the estimate of expected cash flows is determined by projecting a recovery value and a recovery time frame and assessing whether further principal and interest will be received. The determination of recovery value incorporates an issuer valuation assumption utilizing one or a combination of valuation methods as deemed appropriate by the Company. The Company determines the undiscounted recovery value by allocating the estimated value of the issuer to the Company's assessment of the priority of claims. The present value of the cash flows is determined by applying the effective yield of the security at the date of acquisition (or the most recent implied rate used to accrete the security if the implied rate has changed as a result of a previous impairment) and an estimated recovery time frame. Generally, that time frame for securities for which the issuer is in bankruptcy is 12 months. For securities for which the issuer is financially troubled but not in bankruptcy, that time frame is generally 24 months. Included in the present value calculation are

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

expected principal and interest payments; however, for securities for which the issuer is classified as bankrupt or in default, the present value calculation assumes no interest payments and a single recovery amount.

In estimating the recovery value, significant judgment is involved in the development of assumptions relating to a myriad of factors related to the issuer including, but not limited to, revenue, margin and earnings projections, the likely market or liquidation values of assets, potential additional debt to be incurred pre- or post-bankruptcy/restructuring, the ability to shift existing or new debt to different priority layers, the amount of restructuring/bankruptcy expenses, the size and priority of unfunded pension obligations, litigation or other contingent claims, the treatment of intercompany claims and the likely outcome with respect to inter-creditor conflicts.

For structured fixed maturity securities (primarily residential and commercial mortgage-backed securities and asset-backed securities), the Company estimates the present value of the security by projecting future cash flows of the assets underlying the securitization, allocating the flows to the various tranches based on the structure of the securitization and determining the present value of the cash flows using the effective yield of the security at the date of acquisition (or the most recent implied rate used to accrete the security if the implied rate has changed as a result of a previous impairment or changes in expected cash flows). The Company incorporates levels of delinquencies, defaults and severities as well as credit attributes of the remaining assets in the securitization, along with other economic data, to arrive at its best estimate of the parameters applied to the assets underlying the securitization. In order to project cash flows, the following assumptions are applied to the assets underlying the securitization: (1) voluntary prepayment rates, (2) default rates and (3) loss severity. The key assumptions made for the Prime, Alt-A and first-lien Sub-Prime mortgage-backed securities at December 31, 2015 were as follows:

(at December 31, 2015)	Prime	Alt-A	Sub-Prime
Voluntary prepayment rates	1% - 33%	3% - 18%	2% - 10%
Percentage of remaining pool liquidated due to defaults	1% - 46%	8% - 62%	22% - 61%
Loss severity	30% - 65%	55% - 120%	70% - 120%

Real Estate Investments

On at least an annual basis, the Company obtains independent appraisals for substantially all of its real estate investments. In addition, the carrying value of all real estate investments is reviewed for impairment on a quarterly basis or when events or changes in circumstances indicate that the carrying amount may not be recoverable. The review for impairment considers the valuation from the independent appraisal, when applicable, and incorporates an estimate of the undiscounted cash flows expected to result from the use and eventual disposition of the real estate property. An impairment loss is recognized if the expected future undiscounted cash flows are less than the carrying value of the real estate property. The impairment loss is the amount by which the carrying amount exceeds fair value.

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Investments

Investments in Private Equity Limited Partnerships, Hedge Funds and Real Estate Partnerships

The Company reviews its investments in private equity limited partnerships, hedge funds and real estate partnerships for impairment no less frequently than quarterly and monitors the performance throughout the year through discussions with the managers/general partners. If the Company becomes aware of an impairment of a partnership's investments at the balance sheet date prior to receiving the partnership's financial statements, it will recognize an impairment by recording a reduction in the carrying value of the partnership with a corresponding charge to net investment income.

Changes in Intent to Sell Temporarily Impaired Assets

The Company may, from time to time, sell invested assets subsequent to the balance sheet date that it did not intend to sell at the balance sheet date. Conversely, the Company may not sell invested assets that it asserted that it intended to sell at the balance sheet date. Such changes in intent are due to events occurring subsequent to the balance sheet date. The types of events that may result in a change in intent include, but are not limited to, significant changes in the economic facts and circumstances related to the invested asset (e.g., a downgrade or upgrade from a rating agency), significant unforeseen changes in liquidity needs, or changes in tax laws or the regulatory environment.

Securities Lending

The Company has engaged in securities lending activities from which it generates net investment income by lending certain of its investments to other institutions for short periods of time. Borrowers of these securities provide collateral equal to at least 102% of the market value of the loaned securities plus accrued interest. This collateral is held by a third-party custodian, and the Company has the right to access the collateral only in the event that the institution borrowing the Company's securities is in default under the lending agreement. Therefore, the Company does not recognize the receipt of the collateral held by the third-party custodian or the obligation to return the collateral. The loaned securities remain a recorded asset of the Company. The Company accepts only cash as collateral for securities on loan and restricts the manner in which that cash is invested.

Reinsurance Recoverables

Amounts recoverable from reinsurers are estimated in a manner consistent with the associated claim liability. The Company reports its reinsurance recoverables net of an allowance for estimated uncollectible reinsurance recoverables. The allowance is based upon the Company's ongoing review of amounts outstanding, length of collection periods, changes in reinsurer credit standing, disputes, applicable coverage defenses and other relevant factors. Amounts deemed to be uncollectible, including amounts due from known insolvent reinsurers, are written off against the allowance for estimated uncollectible reinsurance recoverables. Any subsequent collections of amounts previously written off are reported as part of claims and claim adjustment expenses. The Company evaluates and monitors the financial condition of its reinsurers under voluntary reinsurance arrangements to minimize its exposure to significant losses from reinsurer insolvencies.

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Acquisition Costs

Incremental direct costs of acquired, new and renewal insurance contracts, consisting of commissions (other than contingent commissions) and premium-related taxes, are capitalized and charged to expense pro rata over the contract periods in which the related premiums are earned. Deferred acquisition costs are reviewed to determine if they are recoverable from future income and, if not, are charged to expense. Future investment income attributable to related premiums is taken into account in measuring the recoverability of the carrying value of this asset. All other acquisition expenses are charged to operations as incurred.

Contractholder Receivables and Payables

Under certain workers' compensation insurance contracts with deductible features, the Company is obligated to pay the claimant for the full amount of the claim. The Company is subsequently reimbursed by the policyholder for the deductible amount. These amounts are included on a gross basis in the consolidated balance sheet in contractholder payables and contractholder receivables, respectively.

Goodwill and Other Intangible Assets

The Company performs a review, on at least an annual basis, of goodwill held by the reporting units which are the Company's three operating and reportable segments: Business and International Insurance; Bond & Specialty Insurance; and Personal Insurance. The Company estimates the fair value of its reporting units and compares it to their carrying value, including goodwill. If the carrying values of the reporting units were to exceed their fair value, the amount of the impairment would be calculated and goodwill adjusted accordingly.

The Company uses a discounted cash flow model to estimate the fair value of its reporting units. The discounted cash flow model is an income approach to valuation that is based on a detailed cash flow analysis for deriving a current fair value of reporting units and is representative of the Company's reporting units' current and expected future financial performance. The discount rate assumptions reflect the Company's assessment of the risks inherent in the projected future cash flows and the Company's weighted-average cost of capital, and are compared against available market data for reasonableness.

Other indefinite-lived intangible assets held by the Company are also reviewed for impairment on at least an annual basis. The classification of the asset as indefinite-lived is reassessed and an impairment is recognized if the carrying amount of the asset exceeds its fair value.

Intangible assets that are deemed to have a finite useful life are amortized over their useful lives. The carrying amount of intangible assets with a finite useful life is regularly reviewed for indicators of impairment in value. Impairment is recognized only if the carrying amount of the intangible asset is not recoverable from its undiscounted cash flows and is measured as the difference between the carrying amount and the fair value of the asset.

As a result of the reviews performed for the years ended December 31, 2015, 2014 and 2013, the Company determined that the estimated fair value substantially exceeded the respective carrying value of its reporting units for those years and that goodwill was not impaired. The Company also

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

determined during its reviews for each year that its other indefinite-lived intangible assets and finite-lived intangible assets were not impaired.

Claims and Claim Adjustment Expense Reserves

Claims and claim adjustment expense reserves represent estimates for the ultimate cost of unpaid reported and unreported claims incurred and related expenses. The reserves are adjusted regularly based upon experience. Included in the claims and claim adjustment expense reserves in the consolidated balance sheet are certain reserves discounted to the present value of estimated future payments. The liabilities for losses for most long-term disability and annuity claim payments, primarily arising from workers' compensation insurance and workers' compensation excess insurance policies, were discounted using a rate of 5% at both December 31, 2015 and 2014. These discounted reserves totaled $2.13 billion and $2.01 billion at December 31, 2015 and 2014, respectively.

The Company performs a continuing review of its claims and claim adjustment expense reserves, including its reserving techniques and the impact of reinsurance. The reserves are also reviewed regularly by qualified actuaries employed by the Company. Since the reserves are based on estimates, the ultimate liability may be more or less than such reserves. The effects of changes in such estimated reserves are included in the results of operations in the period in which the estimates are changed. Such changes in estimates could occur in a future period and may be material to the Company's results of operations and financial position in such period.

Other Liabilities

Included in other liabilities in the consolidated balance sheet is the Company's estimate of its liability for guaranty fund and other insurance-related assessments. The liability for expected state guaranty fund and other premium-based assessments is recognized as the Company writes or becomes obligated to write or renew the premiums on which the assessments are expected to be based. The liability for loss-based assessments is recognized as the related losses are incurred. At December 31, 2015 and 2014, the Company had a liability of $241 million and $245 million, respectively, for guaranty fund and other insurance-related assessments and related recoverables of $18 million and $15 million, respectively. The liability for such assessments and the related recoverables are not discounted for the time value of money. The loss-based assessments are expected to be paid over a period ranging from one year to the life expectancy of certain workers' compensation claimants and the recoveries are expected to occur over the same period of time.

Also included in other liabilities is an accrual for policyholder dividends. Certain insurance contracts, primarily workers' compensation, are participating whereby dividends are paid to policyholders in accordance with contract provisions. Net written premiums for participating dividend policies were approximately 2%, 1% and 1% of total net written premiums for the years ended December 31, 2015, 2014 and 2013, respectively. Policyholder dividends are accrued against earnings using best available estimates of amounts to be paid. The liability accrued for policyholder dividends totaled $57 million and $54 million at December 31, 2015 and 2014, respectively.

Table of Contents

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Treasury Stock

The cost of common stock repurchased by the Company is reported as treasury stock and represents authorized and unissued shares of the Company under the Minnesota Business Corporation Act.

Statutory Accounting Practices

The Company's U.S. insurance subsidiaries, domiciled principally in the State of Connecticut, are required to prepare statutory financial statements in accordance with the accounting practices prescribed or permitted by the insurance departments of the states of domicile. Prescribed statutory accounting practices are those practices that are incorporated directly or by reference in state laws, regulations, and general administrative rules applicable to all insurance enterprises domiciled in a particular state. The State of Connecticut requires insurers domiciled in Connecticut to prepare their statutory financial statements in accordance with National Association of Insurance Commissioners' (NAIC) statutory accounting practices.

Permitted statutory accounting practices are those practices that differ either from state-prescribed statutory accounting practices or NAIC statutory accounting practices.

The Company does not apply any statutory accounting practices that would be considered a prescribed or permitted statutory accounting practice that differs from NAIC statutory accounting practices.

The Company's non-U.S. insurance subsidiaries file financial statements prepared in accordance with the regulatory reporting requirements of their respective local jurisdiction.

Premiums and Unearned Premium Reserves

Premiums are recognized as revenues pro rata over the policy period. Unearned premium reserves represent the unexpired portion of policy premiums. Accrued retrospective premiums are included in premium balances receivable. Premium balances receivable are reported net of an allowance for estimated uncollectible premium amounts.

Ceded premiums are charged to income over the applicable term of the various reinsurance contracts with third party reinsurers. Prepaid reinsurance premiums represent the unexpired portion of premiums ceded to reinsurers and are reported as part of other assets.

Fee Income

Fee income includes servicing fees from carriers and revenues from large deductible policies and service contracts and is recognized pro rata over the contract or policy periods.

Other Revenues

Other revenues include revenues from premium installment charges, which are recognized as collected, revenues of noninsurance subsidiaries other than fee income and gains and losses on dispositions of assets and redemption of debt, and other miscellaneous revenues.

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Company recognizes deferred income tax assets and liabilities for the expected future tax effects attributable to temporary differences between the financial statement and tax return bases of assets and liabilities, based on enacted tax rates and other provisions of the tax law. The effect of a change in tax laws or rates on deferred tax assets and liabilities is recognized in income in the period in which such change is enacted. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that all or some portion of the deferred tax assets will not be realized.

Foreign Currency Translation

The Company assigns functional currencies to its foreign operations, which are generally the currencies of the local operating environment. Foreign currency amounts are remeasured to the functional currency, and the resulting foreign exchange gains or losses are reflected in earnings. Functional currency amounts are then translated into U.S. dollars. The foreign currency remeasurement and translation are calculated using current exchange rates for items reported in the balance sheets and average exchange rates for items recorded in earnings. The change in unrealized foreign currency translation gain or loss during the year, net of tax, is a component of other comprehensive income.

Share-Based Compensation

The Company has an employee stock incentive compensation plan that permits grants of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, deferred stock, stock units, performance awards and other share-based or share-denominated awards with respect to the Company's common stock.

Compensation cost is measured based on the grant-date fair value of an award, utilizing the assumptions discussed in note 13. Compensation cost is recognized for financial reporting purposes over the period in which the employee is required to provide service in exchange for the award (generally the vesting period). In connection with certain share-based awards, participants are entitled to receive dividends during the vesting period, either in cash or dividend equivalent shares, commensurate with the dividends paid to common shareholders. Dividends and dividend equivalent shares on awards that are expected to vest are recorded in retained earnings. Dividends paid on awards that are not expected to vest as part of the Company's forfeiture estimate are recorded as compensation expense.

Nature of Operations

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

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 and in Canada, as

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

well as in the United Kingdom, the Republic of Ireland, Brazil and throughout other parts of the world as a corporate member of Lloyd's. Business and International Insurance is organized as follows:

Domestic

Select Accounts provides small businesses with property and casualty products, including commercial multi-peril, commercial property, general liability, commercial auto and workers' compensation insurance.

Middle Market provides mid-sized businesses with property and casualty products, including commercial multi-peril, commercial property, general liability, commercial auto and workers' compensation insurance, as well as risk management, claims handling and other services. Middle Market generally provides these products to mid-sized businesses through *Commercial Accounts,* as well as to targeted industries through *Construction*, *Technology*, *Public Sector Services* and *Oil & Gas*. Middle Market also provides mono-line umbrella and excess coverage insurance through *Excess Casualty* and insurance coverages for foreign organizations with United States exposures through *Global Partner Services*.

National Accounts provides large companies with casualty products and services, including workers' compensation, general liability and automobile liability, generally utilizing loss-sensitive products, on both a bundled and unbundled basis. National Accounts also includes the Company's commercial residual market business, which primarily offers workers' compensation products and services to the involuntary market.

First Party provides traditional and customized property insurance programs to large and mid-sized customers through *National Property,* insurance for goods in transit and movable objects, as well as builders' risk insurance, through *Inland Marine*, insurance for the marine transportation industry and related services, as well as other businesses involved in international trade, through *Ocean Marine,* and comprehensive breakdown coverages for equipment, including property and business interruption coverages, through *Boiler & Machinery*.

Specialized Distribution markets and underwrites its products to customers predominantly through brokers, wholesale agents, program managers and specialized retail agents that manage customers' unique insurance requirements. Specialized Distribution provides insurance coverage for the commercial transportation industry, as well as commercial liability and commercial property policies for small, difficult to place specialty classes of commercial business primarily on an excess and surplus lines basis, through *Northland,* and tailored property and casualty programs on an admitted basis for customers with common risk characteristics or coverage requirements through *National Programs*. Specialized Distribution also serves small to medium-sized agricultural businesses, including farms, ranches, wineries and related operations, through *Agribusiness*.

International

International, through its operations in Canada, the United Kingdom and the Republic of Ireland, offers property and casualty insurance and risk management services to several customer groups, including, among others, those in the technology, public services, and financial and professional services industry sectors. In addition, International markets personal lines and small

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

commercial insurance business in Canada through Dominion, which the Company acquired on November 1, 2013. International, through its Lloyd's syndicate (Syndicate 5000), for which the Company provides 100% of the capital, underwrites five principal businesses marine, global property, accident & special risks, power & utilities and aviation.

International also includes results from J. Malucelli Participações em Seguros e Resseguros S.A. (JMalucelli) and J. Malucelli Latam S.A. in Brazil. The Company owns 49.5% of both JMalucelli, a market leader in surety coverages in Brazil, and J. Malucelli Latam S.A., which in September 2015 acquired a majority interest in JMalucelli Travelers Seguros S.A., a Colombian start-up surety provider. These joint venture investments are accounted for using the equity method and are included in "other investments" on the consolidated balance sheet. Also, as a result of a transaction that was completed in October 2015 with Paraná Banco S.A., the Company's joint venture partner in Brazil, the Company acquired 100% of the common stock of Travelers Participações em Seguros Brasil S.A., which comprises JMalucelli's former property and casualty insurance business other than surety. The Company consolidates this investment in its financial statements and includes Paraná Banco S.A.'s preferred stock interest in "other liabilities."

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

Bond & Specialty Insurance

The Bond & Specialty Insurance segment provides surety, fidelity, management liability, professional liability, and other property and casualty coverages and related risk management services to a wide range of primarily domestic customers, utilizing various degrees of financially-based underwriting approaches. The range of coverages includes performance, payment and commercial surety and fidelity bonds for construction and general commercial enterprises; management liability coverages including directors and officers liability, employee dishonesty, employment practices liability, fiduciary liability and cyber risk for public corporations, private companies and not-for-profit organizations; professional liability coverage for a variety of professionals including, among others, lawyers and design professionals; and management liability, professional liability, property, workers' compensation, auto and general liability for financial institutions.

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.

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

Homeowners policies provide protection against losses to dwellings and contents from a variety of perils (excluding flooding) as well as coverage for personal liability. The Company writes homeowners

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

insurance for dwellings, condominiums and tenants, and rental properties. The Company also writes coverage for boats and yachts and valuable personal items such as jewelry, and also writes coverages for umbrella liability, identity fraud, and weddings and special events.

2. SEGMENT INFORMATION

The accounting policies used to prepare the segment reporting data for the Company's three reportable business segments are the same as those described in the Summary of Significant Accounting Policies in note 1.

Except as described below for certain legal entities, the Company allocates its invested assets and the related net investment income to its reportable business segments. Pretax net investment income is allocated based upon an investable funds concept, which takes into account liabilities (net of non-invested assets) and appropriate capital considerations for each segment. For investable funds, a benchmark investment yield is developed that reflects the estimated duration of the loss reserves' future cash flows, the interest rate environment at the time the losses were incurred and A+ rated corporate debt instrument yields. For capital, a benchmark investment yield is developed that reflects the average yield on the total investment portfolio. The benchmark investment yields are applied to each segment's investable funds and capital, respectively, to produce a total notional investment income by segment. The Company's actual net investment income is allocated to each segment in proportion to the respective segment's notional investment income to total notional investment income. There are certain legal entities within the Company that are dedicated to specific reportable business segments. The invested assets and related net investment income from these legal entities are reported in the applicable business segment and are not allocated among the other business segments.

The cost of the Company's catastrophe treaty program is included in the Company's ceded premiums and is allocated among reportable business segments based on an estimate of actual market reinsurance pricing using expected losses calculated by the Company's catastrophe model, adjusted for any experience adjustments.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SEGMENT INFORMATION (Continued)

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

(for the year ended December 31, in millions)	Business and International Insurance	Bond & Specialty Insurance	Personal Insurance	Total Reportable Segments
2015				
Premiums	**$ 14,521**	**$ 2,085**	**$ 7,268**	**$ 23,874**
Net investment income	**1,824**	**223**	**332**	**2,379**
Fee income	**445**			**445**
Other revenues	**23**	**22**	**48**	**93**
Total operating revenues(1)	**$ 16,813**	**$ 2,330**	**$ 7,648**	**$ 26,791**
Amortization and depreciation	**$ 2,907**	**$ 467**	**$ 1,322**	**$ 4,696**
Income tax expense	**769**	**272**	**402**	**1,443**
Operating income(1)	**2,170**	**633**	**889**	**3,692**
2014				
Premiums	$ 14,512	$ 2,076	$ 7,125	$ 23,713
Net investment income	2,156	252	379	2,787
Fee income	438			438
Other revenues	46	19	80	145
Total operating revenues(1)	$ 17,152	$ 2,347	$ 7,584	$ 27,083
Amortization and depreciation	$ 2,909	$ 482	$ 1,347	$ 4,738
Income tax expense	798	348	366	1,512
Operating income(1)	2,347	727	824	3,898
2013				
Premiums	$ 13,332	$ 1,981	$ 7,324	$ 22,637
Net investment income	2,087	260	369	2,716
Fee income	395			395
Other revenues	160	20	103	283
Total operating revenues(1)	$ 15,974	$ 2,261	$ 7,796	$ 26,031
Amortization and depreciation	$ 2,751	$ 473	$ 1,461	$ 4,685
Income tax expense	758	227	366	1,351
Operating income(1)	2,404	573	838	3,815

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

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SEGMENT INFORMATION (Continued)

Net written premiums by market were as follows:

(for the year ended December 31, in millions)	2015	2014	2013
Business and International Insurance:			
Domestic:			
Select Accounts	**$ 2,716**	$ 2,707	$ 2,724
Middle Market	**6,325**	6,108	5,862
National Accounts	**1,048**	1,047	1,010
First Party	**1,564**	1,579	1,552
Specialized Distribution	**1,111**	1,074	1,085
Total Domestic	**12,764**	12,515	12,233
International	**1,819**	2,121	1,279
Total Business and International Insurance	**14,583**	14,636	13,512
Bond & Specialty Insurance	**2,081**	2,103	2,030
Personal Insurance:			
Automobile	**3,700**	3,390	3,370
Homeowners and Other	**3,757**	3,775	3,855
Total Personal Insurance	**7,457**	7,165	7,225
Total consolidated net written premiums	**$ 24,121**	$ 23,904	$ 22,767

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SEGMENT INFORMATION (Continued)

Business Segment Reconciliations

(for the year ended December 31, in millions)	2015	2014	2013
Revenue reconciliation			
Earned premiums			
Business and International Insurance:			
Domestic:			
Workers' compensation	**$ 3,868**	$ 3,713	$ 3,560
Commercial automobile	**1,925**	1,901	1,904
Commercial property	**1,772**	1,756	1,698
General liability	**1,914**	1,852	1,790
Commercial multi-peril	**3,132**	3,070	3,093
Other	**39**	42	39
Total Domestic	**12,650**	12,334	12,084
International	**1,871**	2,178	1,248
Total Business and International Insurance	**14,521**	14,512	13,332
Bond & Specialty Insurance:			
Fidelity and surety	**954**	936	913
General liability	**955**	963	891
Other	**176**	177	177
Total Bond & Specialty Insurance	**2,085**	2,076	1,981
Personal Insurance:			
Automobile	**3,512**	3,316	3,431
Homeowners and Other	**3,756**	3,809	3,893
Total Personal Insurance	**7,268**	7,125	7,324
Total earned premiums	**23,874**	23,713	22,637
Net investment income	**2,379**	2,787	2,716
Fee income	**445**	438	395
Other revenues	**93**	145	283
Total operating revenues for reportable segments	**26,791**	27,083	26,031
Other revenues	**6**		(6)
Net realized investment gains	**3**	79	166
Total consolidated revenues	**$ 26,800**	$ 27,162	$ 26,191
Income reconciliation, net of tax			
Total operating income for reportable segments	**$ 3,692**	$ 3,898	$ 3,815
Interest Expense and Other(1)	**(255)**	(257)	(248)

Total operating income		**3,437**		3,641		3,567
Net realized investment gains		**2**		51		106
Total consolidated net income	**$**	**3,439**	$	3,692	$	3,673

(1) The primary component of Interest Expense and Other was after-tax interest expense of $242 million, $240 million and $235 million in 2015, 2014 and 2013, respectively.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SEGMENT INFORMATION (Continued)

(at December 31, in millions)	2015	2014
Asset reconciliation:		
Business and International Insurance	**$ 79,692**	$ 82,310
Bond & Specialty Insurance	**7,360**	7,525
Personal Insurance	**12,748**	12,798
Total assets for reportable segments	**99,800**	102,633
Other assets(1)	**384**	445
Total consolidated assets	**$ 100,184**	$ 103,078

(1) The primary components of other assets at December 31, 2015 and 2014 were other intangible assets and deferred taxes.

Enterprise-Wide Disclosures

The Company does not have revenue from transactions with a single customer amounting to 10 percent or more of its revenues.

The following table presents revenues of the Company's operations based on location:

(for the year ended December 31, in millions)	2015	2014	2013
U.S.	**$ 25,112**	$ 25,091	$ 25,138
Non-U.S.:			
Canada	**1,202**	1,474	529
Other Non-U.S.	**486**	597	524
Total Non-U.S.	**1,688**	2,071	1,053
Total revenues	**$ 26,800**	$ 27,162	$ 26,191

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. INVESTMENTS

Fixed Maturities

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

(at December 31, 2015, in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. government and government agencies and authorities	$ 2,202	$ 8	$ 16	$ 2,194
Obligations of states, municipalities and political subdivisions:				
Local general obligation	12,744	577	3	13,318
Revenue	9,492	472	4	9,960
State general obligation	1,978	97	2	2,073
Pre-refunded	5,813	247		6,060
Total obligations of states, municipalities and political subdivisions	30,027	1,393	9	31,411
Debt securities issued by foreign governments	1,829	45	1	1,873
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	1,863	124	6	1,981
All other corporate bonds	22,854	523	288	23,089
Redeemable preferred stock	103	7		110
Total	$ 58,878	$ 2,100	$ 320	$ 60,658

(at December 31, 2014, in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. government and government agencies and authorities	$ 2,022	$ 36	$ 5	$ 2,053
Obligations of states, municipalities and political subdivisions:				
Local general obligation	12,366	644	5	13,005
Revenue	9,833	575	4	10,404
State general obligation	2,467	137	1	2,603
Pre-refunded	7,229	332		7,561
Total obligations of states, municipalities and political subdivisions	31,895	1,688	10	33,573
Debt securities issued by foreign governments	2,320	48		2,368
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	2,052	165	4	2,213
All other corporate bonds	22,390	844	99	23,135
Redeemable preferred stock	122	10		132
Total	$ 60,801	$ 2,791	$ 118	$ 63,474

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. INVESTMENTS (Continued)

The amortized cost and fair value of fixed maturities by contractual maturity follow. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(at December 31, 2015, in millions)	Amortized Cost	Fair Value
Due in one year or less	$ 6,240	$ 6,324
Due after 1 year through 5 years	16,741	17,296
Due after 5 years through 10 years	16,008	16,260
Due after 10 years	18,026	18,797
	57,015	58,677
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	1,863	1,981
Total	$ 58,878	$ 60,658

Pre-refunded bonds of $6.06 billion and $7.56 billion at December 31, 2015 and 2014, respectively, were bonds for which states or municipalities have established irrevocable trusts, almost exclusively comprised of U.S. Treasury securities, which were created to satisfy their responsibility for payments of principal and interest.

The Company's fixed maturity investment portfolio at December 31, 2015 and 2014 included $1.98 billion and $2.21 billion, respectively, of residential mortgage-backed securities, which include pass-through securities and collateralized mortgage obligations (CMOs). Included in the totals at December 31, 2015 and 2014 were $676 million and $872 million, respectively, of GNMA, FNMA, FHLMC (excluding FHA project loans) and Canadian government guaranteed residential mortgage-backed pass-through securities classified as available for sale. Also included in those totals were residential CMOs classified as available for sale with a fair value of $1.30 billion and $1.34 billion at December 31, 2015 and 2014, respectively. Approximately 48% and 46% of the Company's CMO holdings at December 31, 2015 and 2014, respectively, were guaranteed by or fully collateralized by securities issued by GNMA, FNMA or FHLMC. The average credit rating of the $683 million and $725 million of non-guaranteed CMO holdings at December 31, 2015 and 2014, respectively, was "Baa2" and "Ba1," respectively. The average credit rating of all of the above securities was "Aa3" at both December 31, 2015 and 2014.

At December 31, 2015 and 2014, the Company held commercial mortgage-backed securities (CMBS, including FHA project loans) of $865 million and $715 million, respectively, which are included in "All other corporate bonds" in the tables above. At December 31, 2015 and 2014, approximately $303 million and $202 million of these securities, respectively, or the loans backing such securities, contained guarantees by the U.S. government or a government-sponsored enterprise. The average credit rating of the $562 million and $513 million of non-guaranteed securities at December 31, 2015 and 2014, respectively, was "Aaa" at both dates. The CMBS portfolio is supported by loans that are diversified across economic sectors and geographical areas. The average credit rating of the CMBS portfolio was "Aaa" at both December 31, 2015 and 2014.

At December 31, 2015 and 2014, the Company had $269 million and $296 million, respectively, of securities on loan as part of a tri-party lending agreement.

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. INVESTMENTS (Continued)

Proceeds from sales of fixed maturities classified as available for sale were $1.95 billion, $1.05 billion and $1.64 billion in 2015, 2014 and 2013, respectively. Gross gains of $95 million, $44 million and $66 million and gross losses of $14 million, $12 million and $25 million were realized on those sales in 2015, 2014 and 2013, respectively.

At December 31, 2015 and 2014, the Company's insurance subsidiaries had $4.66 billion and $4.78 billion, respectively, of securities on deposit at financial institutions in certain states pursuant to the respective states' insurance regulatory requirements. Funds deposited with third parties to be used as collateral to secure various liabilities on behalf of insureds, cedants and other creditors had a fair value of $28 million and $39 million at December 31, 2015 and 2014, respectively. Other investments pledged as collateral securing outstanding letters of credit had a fair value of $21 million and $22 million at December 31, 2015 and 2014, respectively. In addition, the Company utilized a Lloyd's trust deposit at December 31, 2015 and 2014, whereby owned securities with a fair value of approximately $140 million and $151 million, respectively, held by an insurance subsidiary were pledged into a Lloyd's trust account to support capital requirements for the Company's operations at Lloyd's.

Equity Securities

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

		Gross Unrealized		
(at December 31, 2015, in millions)	**Cost**	**Gains**	**Losses**	**Fair Value**
Public common stock	**$ 386**	**$ 164**	**$ 7**	**$ 543**
Non-redeemable preferred stock	**142**	**26**	**6**	**162**
Total	**$ 528**	**$ 190**	**$ 13**	**$ 705**

		Gross Unrealized		
(at December 31, 2014, in millions)	**Cost**	**Gains**	**Losses**	**Fair Value**
Public common stock	$ 400	$ 295	$ 4	$ 691
Non-redeemable preferred stock	179	31	2	208
Total	$ 579	$ 326	$ 6	$ 899

Proceeds from sales of equity securities classified as available for sale were $59 million, $158 million and $86 million in 2015, 2014 and 2013, respectively. Gross gains of $16 million, $27 million and $16 million and gross losses of $10 million, $3 million and $1 million were realized on those sales in 2015, 2014 and 2013, respectively.

Real Estate

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

190

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. INVESTMENTS (Continued)

Proceeds from the sale of real estate investments were $31 million, $15 million and $18 million in 2015, 2014 and 2013, respectively. Gross gains of $4 million, $6 million and $7 million were realized on those sales in 2015, 2014 and 2013, respectively, and there were no gross losses. The Company had no real estate held for sale at December 31, 2015 and 2014. Accumulated depreciation on real estate held for investment purposes was $320 million and $290 million at December 31, 2015 and 2014, respectively.

Future minimum rental income on operating leases relating to the Company's real estate properties is expected to be $92 million, $74 million, $61 million, $49 million and $36 million for 2016, 2017, 2018, 2019 and 2020, respectively, and $59 million for 2021 and thereafter.

Short-term Securities

The Company's short-term securities consist of Aaa-rated registered money market funds, U.S. Treasury securities, high-quality commercial paper (primarily A1/P1) and high-quality corporate securities purchased within a year to their maturity with a combined average of 67 days to maturity at December 31, 2015. The amortized cost of these securities, which totaled $4.67 billion and $4.36 billion at December 31, 2015 and 2014, respectively, approximated their fair value.

Variable Interest Entities

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

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

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. INVESTMENTS (Continued)

Unrealized Investment Losses

The following tables summarize, for all investments in an unrealized loss position at December 31, 2015 and 2014, the aggregate fair value and gross unrealized loss by length of time those securities have been continuously in an unrealized loss position. The fair value amounts reported in the tables are estimates that are prepared using the process described in note 4. The Company also relies upon estimates of several factors in its review and evaluation of individual investments, using the process described in note 1, in determining whether such investments are other-than-temporarily impaired.

	Less than 12 months		12 months or longer		Total	
(at December 31, 2015, in millions)	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
Fixed maturities						
U.S. Treasury securities and obligations of U.S. government and government agencies and authorities	$ 1,820	$ 15	$ 28	$ 1	$ 1,848	$ 16
Obligations of states, municipalities and political subdivisions	928	7	142	2	1,070	9
Debt securities issued by foreign governments	172	1			172	1
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	473	4	57	2	530	6
All other corporate bonds	7,725	197	710	91	8,435	288
Redeemable preferred stock	8				8	
Total fixed maturities	11,126	224	937	96	12,063	320
Equity securities						
Public common stock	48	6	33	1	81	7
Non-redeemable preferred stock	47	3	38	3	85	6
Total equity securities	95	9	71	4	166	13
Total	$ 11,221	$ 233	$ 1,008	$ 100	$ 12,229	$ 333

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. INVESTMENTS (Continued)

(at December 31, 2014, in millions)	Less than 12 months Fair Value	Less than 12 months Gross Unrealized Losses	12 months or longer Fair Value	12 months or longer Gross Unrealized Losses	Total Fair Value	Total Gross Unrealized Losses
Fixed maturities						
U.S. Treasury securities and obligations of U.S. government and government agencies and authorities	$ 180	$ 2	$ 125	$ 3	$ 305	$ 5
Obligations of states, municipalities and political subdivisions	173	1	797	9	970	10
Debt securities issued by foreign governments	50		24		74	
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	68		192	4	260	4
All other corporate bonds	2,148	38	2,355	61	4,503	99
Redeemable preferred stock						
Total fixed maturities	2,619	41	3,493	77	6,112	118
Equity securities						
Public common stock	81	4	1		82	4
Non-redeemable preferred stock	44	1	42	1	86	2
Total equity securities	125	5	43	1	168	6
Total	$ 2,744	$ 46	$ 3,536	$ 78	$ 6,280	$ 124

The following table summarizes, for all fixed maturities and equity securities reported at fair value for which fair value is less than 80% of amortized cost at December 31, 2015, the gross unrealized investment loss by length of time those securities have continuously been in an unrealized loss position of greater than 20% of amortized cost:

	Period For Which Fair Value Is Less Than 80% of Amortized Cost				
(in millions)	3 Months or Less	Greater Than 3 Months, 6 Months or Less	Greater Than 6 Months, 12 Months or Less	Greater Than 12 Months	Total
Fixed maturities					
Mortgage-backed securities	$	$	$	$	$
Other	**51**	**17**	**6**	**7**	**81**
Total fixed maturities	**51**	**17**	**6**	**7**	**81**
Equity securities	**3**	**1**			**4**
Total	**$ 54**	**$ 18**	**$ 6**	**$ 7**	**$ 85**

These unrealized losses at December 31, 2015 represented less than 1% of the combined fixed maturity and equity security portfolios on a pretax basis and less than 1% of shareholders' equity on an after-tax basis.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. INVESTMENTS (Continued)

Impairment Charges

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

(for the year ended December 31, in millions)	2015	2014	2013
Fixed maturities			
U.S. Treasury securities and obligations of U.S. government and government agencies and authorities	$	$	$
Obligations of states, municipalities and political subdivisions			
Debt securities issued by foreign governments			
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities		1	2
All other corporate bonds	**13**	15	3
Redeemable preferred stock			
Total fixed maturities	**13**	16	5
Equity securities			
Public common stock	**37**	9	5
Non-redeemable preferred stock			
Total equity securities	**37**	9	5
Other investments	**2**	1	5
Total	**$ 52**	$ 26	$ 15

The following tables present the cumulative amount of and the changes during the reporting period in the credit losses of other-than-temporary impairments (OTTI) on fixed maturities recognized in the consolidated statement of income for which a portion of the OTTI was recognized in other comprehensive income:

Year ended December 31, 2015 (in millions)	Cumulative OTTI Credit Losses Recognized for Securities Held, Beginning of Period	Additions for OTTI Securities Where No Credit Losses Were Previously Recognized	Additions for OTTI Securities Where Credit Losses Have Been Previously Recognized	Reductions Due to Sales/Defaults of Credit-Impaired Securities	Adjustments to Book Value of Credit-Impaired Securities due to Changes in Cash Flows	Cumulative OTTI Credit Losses Recognized for Securities Still Held, End of Period
Fixed maturities						
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	**$ 40**	**$**	**$**	**$ (6)**	**$ (2)**	**$ 32**
All other corporate bonds	**59**	**2**		**(4)**	**(6)**	**51**
Total fixed maturities	**$ 99**	**$ 2**	**$**	**$ (10)**	**$ (8)**	**$ 83**

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. INVESTMENTS (Continued)

Year ended December 31, 2014 (in millions)	Cumulative OTTI Credit Losses Recognized for Securities Held, Beginning of Period	Additions for OTTI Securities Where No Credit Losses Were Previously Recognized	Additions for OTTI Securities Where Credit Losses Have Been Previously Recognized	Reductions Due to Sales/Defaults of Credit-Impaired Securities	Adjustments to Book Value of Credit-Impaired Securities due to Changes in Cash Flows	Cumulative OTTI Credit Losses Recognized for Securities Still Held, End of Period
Fixed maturities						
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	$ 53	$	$ 1	$ (5)	$ (9)	$ 40
All other corporate bonds	65		3	(6)	(3)	59
Total fixed maturities	$ 118	$	$ 4	$ (11)	$ (12)	$ 99

Concentrations and Credit Quality

Concentrations of credit risk arise from exposure to counterparties that are engaged in similar activities and have similar economic characteristics that could cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Company seeks to mitigate credit risk by actively monitoring the creditworthiness of counterparties, obtaining collateral as deemed appropriate and applying controls that include credit approvals, limits of credit exposure and other monitoring procedures.

At December 31, 2015 and 2014, other than U.S. Treasury securities, obligations of U.S. government and government agencies and authorities and obligations of the Canadian government, the Company was not exposed to any concentration of credit risk of a single issuer greater than 5% of the Company's shareholders' equity.

Included in fixed maturities are below investment grade securities totaling $1.71 billion and $1.91 billion at December 31, 2015 and 2014, respectively. The Company defines its below investment grade securities as those securities rated below investment grade by external rating agencies, or the equivalent by the Company when a public rating does not exist. Such securities include below investment grade bonds that are publicly traded and certain other privately issued bonds that are classified as below investment grade loans.

Net Investment Income

(for the year ended December 31, in millions)	2015	2014	2013
Gross investment income			
Fixed maturities	**$ 2,091**	$ 2,244	$ 2,310
Equity securities	**39**	40	31
Short-term securities	**12**	9	11
Real estate investments	**48**	44	37
Other investments	**230**	489	364
Gross investment income	**2,420**	2,826	2,753
Investment expenses	**41**	39	37

Net investment income	**$ 2,379**	$ 2,787	$ 2,716

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. INVESTMENTS (Continued)

Changes in net unrealized gains on investment securities that are included as a separate component of other comprehensive income (loss) were as follows:

(at and for the year ended December 31, in millions)	2015	2014	2013
Changes in net unrealized investment gains			
Fixed maturities	**$ (893)**	$ 913	$ (2,804)
Equity securities	**(143)**	63	74
Other investments	**2**	2	(1)
Change in net pretax unrealized gains on investment securities	**(1,034)**	978	(2,731)
Related tax expense (benefit)	**(357)**	334	(950)
Change in net unrealized gains on investment securities	**(677)**	644	(1,781)
Balance, beginning of year	**1,966**	1,322	3,103
Balance, end of year	**$ 1,289**	$ 1,966	$ 1,322

Derivative Financial Instruments

From time to time, the Company enters into U.S. Treasury note futures contracts to modify the effective duration of specific assets within the investment portfolio. U.S. Treasury futures contracts require a daily mark-to-market and settlement with the broker. At December 31, 2015 and 2014, the Company had $400 million and $350 million notional value of open U.S. Treasury futures contracts, respectively. Net realized investment gains in 2015, 2014 and 2013 included net losses of $5 million, net losses of $1 million and net gains of $115 million, respectively, related to U.S. Treasury futures contracts.

The Company purchases investments that have embedded derivatives, primarily convertible debt securities. These embedded derivatives are carried at fair value with changes in value reflected in net realized investment gains. Derivatives embedded in convertible debt securities are reported on a combined basis with their host instrument and are classified as fixed maturities. The Company also sells a small amount of U.S. equity index put option contracts that are settled for cash upon their expiration or when they are rolled over. Net realized investment gains (losses) related to these derivatives in 2015, 2014 and 2013 were not significant.

4. FAIR VALUE MEASUREMENTS

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

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. FAIR VALUE MEASUREMENTS (Continued)

within which the fair value measurement is reported is based on the lowest level input that is significant to the measurement in its entirety. The three levels of the hierarchy are as follows:

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

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

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

Valuation of Investments Reported at Fair Value in Financial Statements

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

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

Fixed Maturities

The Company utilized a pricing service to estimate fair value measurements for approximately 98% of its fixed maturities at both December 31, 2015 and 2014. The pricing service utilizes market quotations for fixed maturity securities that have quoted prices in active markets. Since fixed maturities other than U.S. Treasury securities generally do not trade on a daily basis, the pricing service prepares estimates of fair value measurements for these securities using its proprietary pricing applications, which include available relevant market information, benchmark curves, benchmarking of like securities, sector groupings and matrix pricing. Additionally, the pricing service uses an Option Adjusted Spread model to develop prepayment and interest rate scenarios.

Table of Contents

4. FAIR VALUE MEASUREMENTS (Continued)

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

The pricing service utilized by the Company has indicated that it will only produce an estimate of fair value if there is objectively verifiable information to produce a valuation. If the pricing service discontinues pricing an investment, the Company would be required to produce an estimate of fair value using some of the same methodologies as the pricing service but would have to make assumptions for any market-based inputs that were unavailable due to market conditions. The Company reviews the estimates of fair value provided by the pricing service and compares the estimates to the Company's knowledge of the market to determine if the estimates obtained are representative of the prices in the market. In addition, the Company has periodic discussions with the pricing service to discuss and understand any changes in process and their responsiveness to changes occurring in the markets. In addition, the Company has implemented various other processes including randomly selecting purchased or sold securities and comparing execution prices to the estimates from the pricing service as well as reviewing reports that contain securities whose valuation did not change from their previous valuation (stale price review). The Company also uses an additional independent pricing service to further test the primary pricing service's valuation of the Company's fixed maturity portfolio.

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

The Company also holds certain fixed maturity investments which are not priced by the pricing service and, accordingly, estimates the fair value of such fixed maturities using an internal matrix that is based on market information regarding interest rates, credit spreads and liquidity. The underlying source data for calculating the matrix of credit spreads relative to the U.S. Treasury curve are the BofA Merrill Lynch U.S. Corporate Index and the BofA Merrill Lynch High Yield BB Rated Index. The Company includes the fair value estimates of these corporate bonds in Level 2, since all significant inputs are market observable.

While the vast majority of the Company's fixed maturities are included in Level 2, the Company holds a number of municipal bonds and corporate bonds which are not valued by the pricing service and estimates the fair value of these bonds using an internal pricing matrix with some unobservable inputs that are significant to the valuation. Due to the limited amount of observable market information, the Company includes the fair value estimates for these particular bonds in Level 3. The fair value of the fixed maturities for which the Company used an internal pricing matrix was $101 million and $92 million at December 31, 2015 and 2014, respectively. Additionally, the Company holds a small amount of other fixed maturity investments that have characteristics that make them unsuitable for matrix pricing. For these fixed maturities, the Company obtains a quote from a broker

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. FAIR VALUE MEASUREMENTS (Continued)

(primarily the market maker). The fair value of the fixed maturities for which the Company received a broker quote was $117 million and $140 million at December 31, 2015 and 2014, respectively. Due to the disclaimers on the quotes that indicate that the price is indicative only, the Company includes these fair value estimates in Level 3.

Equity Securities Public Common Stock and Non-Redeemable Preferred Stock

For public common stock and non-redeemable preferred stocks, the Company receives prices from pricing services that are based on observable market transactions and includes these estimates in the amount disclosed in Level 1. When current market quotes in active markets are unavailable for certain non-redeemable preferred stocks held by the Company, the Company receives an estimate of fair value from the pricing services. The services utilize similar methodologies to price the non-redeemable preferred stocks as they do for the fixed maturities. The Company includes the fair value estimate for these non-redeemable preferred stocks in the amount disclosed in Level 2.

Other Investments

The Company holds investments in various publicly-traded securities which are reported in other investments. These investments include mutual funds and other small holdings. The $18 million and $19 million fair value of these investments at December 31, 2015 and 2014, respectively, was disclosed in Level 1. At December 31, 2015 and 2014, the Company held investments in non-public common and preferred equity securities, with fair value estimates of $38 million and $36 million, respectively, reported in other investments, where the fair value estimate is determined either internally or by an external fund manager based on recent filings, operating results, balance sheet stability, growth and other business and market sector fundamentals. Due to the significant unobservable inputs in these valuations, the Company includes the total fair value estimate for all of these investments at December 31, 2015 and 2014 in the amount disclosed in Level 3.

Derivatives

At December 31, 2015 and 2014, the Company held $2 million and $4 million, respectively, of convertible bonds containing embedded conversion options that are valued separately from the host bond contract in the amount disclosed in Level 2 fixed maturities.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. FAIR VALUE MEASUREMENTS (Continued)

Fair Value Hierarchy

The following tables present the level within the fair value hierarchy at which the Company's financial assets and financial liabilities are measured on a recurring basis. An investment transferred between levels during a period is transferred at its fair value as of the beginning of that period.

(at December 31, 2015, in millions)	Total	Level 1	Level 2	Level 3
Invested assets:				
Fixed maturities				
U.S. Treasury securities and obligations of U.S. government and government agencies and authorities	$ 2,194	$ 2,194	$	$
Obligations of states, municipalities and political subdivisions	31,411		31,398	13
Debt securities issued by foreign governments	1,873		1,873	
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	1,981		1,957	24
All other corporate bonds	23,089		22,915	174
Redeemable preferred stock	110	3	100	7
Total fixed maturities	60,658	2,197	58,243	218
Equity securities				
Public common stock	543	543		
Non-redeemable preferred stock	162	55	107	
Total equity securities	705	598	107	
Other investments	56	18		38
Total	$ 61,419	$ 2,813	$ 58,350	$ 256

During the year ended December 31, 2015, the Company's transfers between Level 1 and Level 2 were not significant.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. FAIR VALUE MEASUREMENTS (Continued)

(at December 31, 2014, in millions)	Total	Level 1	Level 2	Level 3
Invested assets:				
Fixed maturities				
U.S. Treasury securities and obligations of U.S. government and government agencies and authorities	$ 2,053	$ 2,049	$ 4	$
Obligations of states, municipalities and political subdivisions	33,573		33,560	13
Debt securities issued by foreign governments	2,368		2,368	
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	2,213		2,203	10
All other corporate bonds	23,135		22,934	201
Redeemable preferred stock	132	2	122	8
Total fixed maturities	63,474	2,051	61,191	232
Equity securities				
Public common stock	691	691		
Non-redeemable preferred stock	208	82	126	
Total equity securities	899	773	126	
Other investments	55	19		36
Total	$ 64,428	$ 2,843	$ 61,317	$ 268

During the year ended December 31, 2014, the Company's transfers between Level 1 and Level 2 were not significant.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. FAIR VALUE MEASUREMENTS (Continued)

The following tables present the changes in the Level 3 fair value category for the years ended December 31, 2015 and 2014.

(in millions)	Fixed Maturities	Other Investments	Total
Balance at December 31, 2014	**$ 232**	**$ 36**	**$ 268**
Total realized and unrealized investment gains (losses):			
Reported in net realized investment gains(1)	**1**	**2**	**3**
Reported in increases (decreases) in other comprehensive income	**(4)**	**1**	**(3)**
Purchases, sales and settlements/maturities:			
Purchases	**202**	**1**	**203**
Sales	**(7)**	**(2)**	**(9)**
Settlements/maturities	**(41)**		**(41)**
Gross transfers into Level 3	**21**		**21**
Gross transfers out of Level 3	**(186)**		**(186)**
Balance at December 31, 2015	**$ 218**	**$ 38**	**$ 256**
Amount of total realized investment gains (losses) for the period included in the consolidated statement of income attributable to changes in the fair value of assets still held at the reporting date	**$**	**$ (1)**	**$ (1)**

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

(in millions)	Fixed Maturities	Other Investments	Total
Balance at December 31, 2013	$ 255	$ 34	$ 289
Total realized and unrealized investment gains (losses):			
Reported in net realized investment gains(1)	3	1	4
Reported in increases (decreases) in other comprehensive income	(2)	1	(1)
Purchases, sales and settlements/maturities:			
Purchases	232	1	233
Sales	(1)	(1)	(2)
Settlements/maturities	(90)		(90)
Gross transfers into Level 3	18		18
Gross transfers out of Level 3	(183)		(183)
Balance at December 31, 2014	$ 232	$ 36	$ 268
Amount of total realized investment gains (losses) for the period included in the consolidated statement of income attributable to changes in the fair value of assets still held at the reporting	$	$	$

date

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

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. FAIR VALUE MEASUREMENTS (Continued)

Financial Instruments Disclosed, But Not Carried, At Fair Value

The Company uses various financial instruments in the normal course of its business. The Company's insurance contracts are excluded from fair value of financial instruments accounting guidance and, therefore, are not included in the amounts discussed below. The following tables present the carrying value and fair value of the Company's financial assets and financial liabilities disclosed, but not carried, at fair value, and the level within the fair value hierarchy at which such assets and liabilities are categorized.

(at December 31, 2015, in millions)	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Short-term securities	**$ 4,671**	**$ 4,671**	**$ 1,685**	**$ 2,958**	**$ 28**
Financial liabilities:					
Debt	**$ 6,244**	**$ 7,180**	**$**	**$ 7,180**	**$**
Commercial paper	**100**	**100**		**100**	

(at December 31, 2014, in millions)	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Short-term securities	$ 4,364	$ 4,364	$ 1,283	$ 3,042	$ 39
Financial liabilities:					
Debt	$ 6,249	$ 7,522	$	$ 7,522	$
Commercial paper	100	100		100	

The Company utilized a pricing service to estimate fair value for approximately 99% and 98% of short-term securities at December 31, 2015 and 2014, respectively. A description of the process and inputs used by the pricing service to estimate fair value is discussed in the "*Fixed Maturities*" section above. Estimates of fair value for U.S. Treasury securities and money market funds are based on market quotations received from the pricing service and are disclosed in Level 1 of the hierarchy. The fair value of other short-term fixed maturity securities is estimated by the pricing service using observable market inputs and is disclosed in Level 2 of the hierarchy. For short-term securities where an estimate is not obtained from the pricing service, the carrying value approximates fair value and is included in Level 3 of the hierarchy.

The Company utilized a pricing service to estimate fair value for 100% of its debt, including commercial paper, at December 31, 2015 and 2014. The pricing service utilizes market quotations for debt that have quoted prices in active markets. Since fixed maturities other than U.S. Treasury securities generally do not trade on a daily basis, the fair value estimates are based on market observable inputs and disclosed in Level 2 of the hierarchy.

The Company had no material assets or liabilities that were measured at fair value on a non-recurring basis during the years ended December 31, 2015 and 2014.

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. REINSURANCE

The Company's consolidated financial statements reflect the effects of assumed and ceded reinsurance transactions. Assumed reinsurance refers to the acceptance of certain insurance risks that other insurance companies have underwritten. Ceded reinsurance involves transferring certain insurance risks (along with the related written and earned premiums) the Company has underwritten to other insurance companies who agree to share these risks. The primary purpose of ceded reinsurance is to protect the Company, at a cost, from losses in excess of the amount it is prepared to accept and to protect the Company's capital. Reinsurance is placed on both a quota-share and excess-of-loss basis. Ceded reinsurance arrangements do not discharge the Company as the primary insurer, except for instances where the primary policy or policies have been novated, such as in certain structured settlement agreements.

The Company utilizes a corporate catastrophe excess-of-loss reinsurance treaty with unaffiliated reinsurers to manage its exposure to losses resulting from catastrophes and to protect its capital. In addition to the coverage provided under this treaty, the Company also utilizes catastrophe bonds to protect against certain weather-related and earthquake losses in the Northeastern United States, and a Northeast catastrophe reinsurance treaty to protect against losses resulting from weather-related and earthquake catastrophes in the Northeastern United States. The Company also utilizes excess-of-loss treaties to protect against earthquake losses up to a certain threshold in the Business and International Insurance segment (for certain markets) and for the Personal Insurance segment, and several reinsurance treaties specific to its international operations.

The Company monitors the financial condition of its reinsurers under voluntary reinsurance arrangements to evaluate the collectability of amounts due from reinsurers and as a basis for determining the reinsurers with which the Company conducts ongoing business. In addition, in the ordinary course of business, the Company may become involved in coverage disputes with its reinsurers. Some of these disputes could result in lawsuits and arbitrations brought by or against the reinsurers to determine the Company's rights and obligations under the various reinsurance agreements. The Company employs dedicated specialists and strategies to manage reinsurance collections and disputes.

Included in reinsurance recoverables are amounts related to involuntary reinsurance arrangements. The Company is required to participate in various involuntary reinsurance arrangements through assumed reinsurance, principally with regard to residual market mechanisms in workers' compensation and automobile insurance, as well as homeowners' insurance in certain coastal areas. In addition, the Company provides services for several of these involuntary arrangements (mandatory pools and associations) under which it writes such residual market business directly, then cedes 100% of this business to the mandatory pool. Such participations and servicing arrangements are arranged to mitigate credit risk to the Company, as any ceded balances are jointly backed by all the pool members.

Also included in reinsurance recoverables are amounts related to certain structured settlements. Structured settlements are annuities purchased from various life insurance companies to settle certain personal physical injury claims, of which workers' compensation claims comprise a significant portion. In cases where the Company did not receive a release from the claimant, the structured settlement is included in reinsurance recoverables and the related claim cost is included in the liability for claims and claim adjustment expense reserves, as the Company retains the contingent liability to the claimant. If it is expected that the life insurance company is not able to pay, the Company would recognize an impairment of the related reinsurance recoverable if, and to the extent, the purchased annuities are not

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. REINSURANCE (Continued)

covered by state guaranty associations. In the event that the life insurance company fails to make the required annuity payments, the Company would be required to make such payments.

The following is a summary of reinsurance financial data reflected in the consolidated statement of income:

(for the year ended December 31, in millions)	2015	2014	2013
Written premiums			
Direct	**$ 24,939**	$ 24,844	$ 23,952
Assumed	**843**	788	705
Ceded	**(1,661)**	(1,728)	(1,890)
Total net written premiums	**$ 24,121**	$ 23,904	$ 22,767
Earned premiums			
Direct	**$ 24,740**	$ 24,810	$ 23,891
Assumed	**814**	743	717
Ceded	**(1,680)**	(1,840)	(1,971)
Total net earned premiums	**$ 23,874**	$ 23,713	$ 22,637