Financial Review
April 28, 2014

The industry's combined ratio improved to 96.2 in 2013.

U.S. P/C Industry Posts First Underwriting Profit Since 2009; Policyholders' Surplus Sets Record

The U.S. Property/Casualty (P/C) industry posted its first annual underwriting profit since 2009 as continued growth in premiums, moderate weather and catastrophe losses, and improved core underwriting results produced a combined ratio of 96.2 for calendar year 2013. In the face of a continued challenging investment environment, net investment income grew nearly 2% for the year. Pretax operating income was up 74.8% and, with realized gains more than doubling, net income grew 82.3% to $70.5 billion (see **Exhibit 1**). As a result, policyholders' surplus (PHS) set a new record by increasing 10.9% to $662.9 billion.

Premium growth remained strong in 2013, with net premiums written (NPW) increasing by 4.7% compared with 4.1% in 2012 (see **Exhibit 2**). Growth in net premiums earned (NPE) increased even more rapidly to 4.4% from 3.2%, reflecting the impact of rate increases achieved in 2012 and earned in 2013. Premium volume was up for most major lines, with other liability (occurrence) posting an 11.8% increase, the largest of any line.

Favorable development of prior years' loss reserves continued to benefit calendar-year results, improving the combined ratio by 2.9 points in 2013. A.M. Best continues to believe the level of favorable loss-reserve development will have a reduced impact on the industry's results in the near to medium term as companies recognize the effects of underpricing during prior accident years.

In 2013, catastrophe losses dipped to $18.2 billion – their lowest level since 2009 – declining for the second year from the record $48.8 billion in 2011. Primary insurers benefited not only from lower losses, but also from declining property reinsurance rates that increased retained premium.

The U.S. P/C industry, as defined for the purposes of this analysis, does not include the mortgage guaranty and financial guaranty segments. Data presented in this report do not include information of companies in these segments.

Exhibit 1
U.S. Property/Casualty – 12-Month Financial Indicators (2012-2013)

	12 Months 2012 (USD Billions)	12 Months 2013 (USD Billions)	Year/Year % Change
Net Premiums Written	459.2	480.7	4.7
Net Premiums Earned	450.1	470.0	4.4
Pure Losses Incurred	276.0	261.5	-5.3
Loss-Adjustment Expenses	55.7	56.2	0.9
Losses & LAE	331.7	317.7	-4.2
Underwriting Expenses	129.3	134.5	4.0
Policyholder Dividends	2.8	3.1	9.4
Underwriting Income/(Loss)	-13.8	14.8	N/M
Net Investment Income	48.5	49.4	1.8
Other Income	1.7	-0.4	N/M
Pretax Operating Income/(Loss)	36.4	63.7	74.8
Realized Capital Gains/(Losses)	8.5	18.6	119.2
Federal Income Taxes	6.3	11.8	88.6
Net Income	38.7	70.5	82.3

Note: Figures may not add due to rounding.
Excludes Mortgage and Financial Guaranty Segments
N/M = not meaningful
Data as of March 29, 2014
Source: A.M. Best research

Financial Performance – Underwriting

The industry's financial performance in 2013 was very strong, driven by a combination of underwriting profitability, increasing investment income and a high level of realized capital gains. The industry's capital position was also boosted by the substantial level of unrealized gains on its investment portfolio despite rising interest rates having a modest dampening effect on those gains.

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Note to Readers:

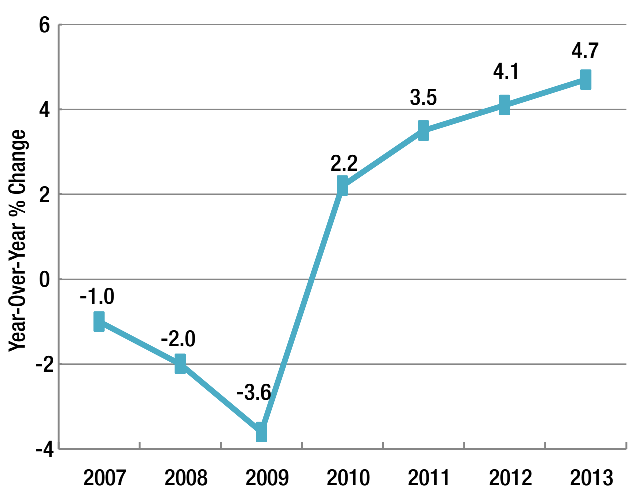
Beginning with this report – given the global nature of reinsurance markets – A.M. Best's U.S. P/C market quarterly updates no longer will include commentary on the statutory or GAAP financial results of reinsurance companies that are U.S. statutory filers. A.M. Best will continue to include U.S. domiciled reinsurers' financial results as part of the overall industry, with segment-specific data where appropriate. For A.M. Best's most recent commentary on the global reinsurance market – including U.S. reinsurers – please see the April 4, 2014, Special Report *Global Reinsurance – Financial Review*.

Underwriting results benefited from both higher premiums and lower losses. NPE for the industry reached a record $470.0 billion in 2013, up $19.9 billion from its previous record of $450.1 billion in 2012 (see **Exhibit 1**). The increase reflects the improved rate environment that took hold for most major lines in late 2011 and early 2012. In commercial lines, increased exposures driven by modestly improving economic conditions – including increased sales and employee counts – also contributed to the higher level of premium. Personal lines insurers were also able to achieve rate increases, particularly for property lines in areas that have faced increased losses in recent years.

The industry's NPW also benefited from the competitive reinsurance market in 2013. Many primary companies have taken advantage of these conditions to reduce their overall reinsurance spending by paying lower rates for the same reinsurance arrangements, or by increasing retentions to maintain a higher percentage of their profitable business. Other companies have taken advantage of reinsurance market conditions to either expand coverage – including adding layers at the top of their excess-of-loss reinsurance programs or buying aggregate covers – or by reducing retentions. While these companies would not necessarily see a reduction in their reinsurance spending, their losses under adverse conditions likely would be reduced.

Exhibit 2

U.S. Property/Casualty – Change in Net Premiums Written



Data as of March 29, 2014
Excludes Mortgage and Financial Guaranty Segments
Source: A.M. Best research

As in the primary market, expanded use of technology in risk selection and generally benign weather conditions drove substantial improvements in results at traditional reinsurers. However, they face the additional challenge of increased competition from new entrants funded by alternative capital. While it is not yet clear whether this new capital will stay in the market in the aftermath of a significant industry event, primary companies have capitalized on the immediate opportunity to reduce costs and increase protection.

In addition to improved top-line premium revenue, the industry's results also benefited from markedly lower losses. Incurred losses declined by 5.3% to $261.5 billion, or by $14.5 billion (see **Exhibit 1**). In nominal terms, the decline was driven by a reduction in catastrophe losses, which fell by $17.9 billion. However, the pure loss ratio improved, as the percentage increase in incurred losses, excluding catastrophes, was less than the percentage increase in NPE. As a result, the pure loss ratio, excluding catastrophes, measured 51.7 in 2013, an improvement of 1.6 points over 2012's 53.3.

The improvement in core underwriting losses reflects the extent to which the industry is attaining more adequate rates for its exposures. It appears as though the industry is responding to the need to achieve underwriting profitability to offset the effects of the continuing low interest rate environment.

While A.M. Best continues to believe the industry has recognized most of the favorable development of prior years' loss reserves, reserve releases for the industry increased in 2013. Favorable development reached $16.4 billion in 2013, up from $14.5 billion in 2012. A.M. Best notes that the Tower Group has announced a reserve charge but has yet to submit its financial results for 2013 as of the date of this report. However, it is anticipated that overall reserve development will be favorable for the industry, even considering the negative impact of that group's reserve strengthening. The combined ratio benefit from favorable reserve development was 2.9 points in 2013, up from 2.7 points in 2012.

Loss adjustment and underwriting expenses also increased nominally – albeit at a slower pace than premiums – reflecting the higher levels of business flowing through the industry.

The result of increased premiums, lower losses, a higher level of favorable reserve development and relatively lower expenses together produced a 6.3-point improvement in the industry's combined ratio to 96.2, the best level since 2007's 94.0. Underwriting income of $14.8 billion reached its highest level since 2007's $23.0 billion. Performance improved in all segments of the P/C industry in 2013 (see **Exhibit 3**).

Increased use of sophisticated underwriting and pricing tools are also key factors driving the improved underwriting results. Companies use these tools to help identify preferred risks within their current books of business and target price changes to retain their best business. Predictive modeling is expanding as a tool to evaluate new business submissions, and a number of companies report a smaller differential between new and renewal pricing across their books.

Modeling technology also is increasingly being deployed in claims units. Some companies use models to project overall claims costs based on severity of injury, and may quickly assign claims to special units dedicated to handling traumatic injuries. While the industry long has used estimation software, mobile claims units that can issue "on the spot" checks for minor

Exhibit 3
U.S. Property/Casualty – Segment Underwriting Trends

	Personal Lines Segment		Commercial Lines Segment		U.S. Reinsurance Segment		Total U.S. P/C Industry	
	12 Months 2012	12 Months 2013	12 Months 2012	12 Months 2013	12 Months 2012	12 Months 2013	12 Months 2012	12 Months 2013
Pure Loss Ratio	62.4	58.8	60.5	52.6	57.2	47.6	61.3	55.6
Loss Adjustment Expense (LAE) Ratio	12.0	11.5	13.6	13.3	7.4	6.3	12.4	12.0
Loss & LAE Ratio	74.3	70.3	74.1	65.9	64.7	53.9	73.7	67.6
Underwriting Expense Ratio	26.7	26.5	29.9	29.6	29.2	29.9	28.2	28.0
Policyholder Dividend Ratio	0.6	0.6	0.8	0.8	0.0	0.0	0.6	0.7
Combined Ratio (Reported)	101.6	97.5	104.8	96.3	93.9	83.8	102.5	96.2
Less: Accident Year Catastrophe [1]	7.4	4.2	8.5	3.6	9.8	2.4	8.0	3.9
Less: A&E Losses (Points)	0.1	0.1	1.2	1.1	0.8	1.4	0.6	0.5
Combined Ratio (Normalized)	94.1	93.2	95.1	91.6	83.3	80.1	93.9	91.8
Accident-Year Combined Ratio (Reported)	103.9	99.1	107.4	99.8	99.7	94.7	105.1	99.2

Note: Figures may not add due to rounding.
Excludes Mortgage and Financial Guaranty Segments
[1] A catastrophe is defined as an industry event that causes $25 million or more in insured property losses.
Data as of March 29, 2014
Source: A.M. Best research

property or auto claims have become more common and resulted in improved efficiency and customer satisfaction. In many cases, these technologies have evolved from providing competitive advantages to those companies embracing them, to placing a marketplace disadvantage on those companies that have not. Companies not using these technologies may be adversely selected against, underprice risks or both, as their competitors shed less desirable risks and price their products to attract and retain preferred business.

Financial Performance – Investments

The traditionally conservative allocation of the industry's investment portfolio – which places significant weight on fixed-income investments – has changed little in recent years, even as investment yield has declined. The industry has offset the impact of declining yield, as investment income continues to rise given higher levels of invested assets.

To be sure, 2013 was no exception to this trajectory. Net investment income, reflecting the interest and dividends paid on the industry's investments, grew 1.8%, primarily as a result of a 6.8% increase in cash and invested assets in the year. Net investment yield declined, however, to 3.2% from 3.3% in 2012. The net investment income ratio, which measures net investment income as a percentage of NPE, declined to 10.5 points in 2013 from 10.8 points in the prior year, its lowest level since 2004's 9.7 points.

As noted previously, the industry appears to have recognized the need to improve underwriting profitability to achieve desired returns, given persistent low interest rates. As the economy enters its sixth year since the global financial crisis of 2008-2009, interest rates still appear unlikely to change substantially in the near term. As a result, some companies have begun deploying capital into investment classes other than traditional fixed-income securities, including equities – particularly those that pay dividends; mortgage and other asset-backed securities; and lower-rated holdings, although generally still investment grade. A smaller number of companies are looking at other assets, such as direct mortgages, limited partnerships, hedge funds and private placements to enhance yields.

Overall, however, the allocation of the industry's investments has changed little from prior years. Long-term bonds continue to represent the largest asset class; however, their proportion as an asset class continues to decrease as proceeds of maturing bonds are reinvested into other asset classes. Increasing interest rates and changing credit ratings have caused reductions in the unrealized gain position of certain bonds, contributing to the reduced percentage of bonds within the overall investment portfolio. As P/C companies typically hold bonds to maturity, the reduction in the unrealized gains on bonds is not significant for the industry overall, although the nature of their holdings has had a substantial impact on some companies.

The strength of the equity markets in 2013 drove a substantial increase in the industry's realized capital gains to $18.6 billion from $8.5 billion in 2012 (see **Exhibit 1**). Some of the harvesting of gains represented management's desire to safeguard them against market declines; in other cases, selling was required to maintain equity allocations within company or regulatory guidelines. Strong equity markets also drove a substantial increase in the industry's unrealized gain position, more than offsetting lower unrealized gains in the bond portfolio. On Dec. 31, 2013, the industry had $36.5 billion of unrealized gains on its investments, up more than four times from $7.2 billion at year-end 2012.

The industry's investments in "other" assets – which include holdings such as limited partnerships, hedge funds and real estate – declined slightly in 2013. A number of companies reported that their investments in these assets have been declining as limited partnerships have entered the "harvest" phase, without corresponding new investments or calls on pledges.

Affiliated investments increased modestly in the year.

Financial Performance – Income and Returns

Boosted by favorable underwriting performance and modestly higher net investment income, the industry's 2013 pretax operating income increased 74.8% from 2012 to $63.7 billion (see **Exhibit 1**), its highest level since 2007's $77.7 billion. As noted above, realized gains added a further $18.6 billion to income, partially offset by income taxes of $11.8 billion, to produce a record level of $70.5 billion in net income, exceeding the previous high mark of $67.6 billion in 2007.

The industry posted solid returns on pretax revenue of 13.6% in 2013. Total return on equity (ROE) improved to 17.0% from 7.9% in 2012. The importance of driving underwriting profits, with combined ratios in the mid-90s, is a critical component of the improvement in ROE, given the state of investment markets.

Loss-Reserve Development

As previously noted, the industry posted overall favorable development of loss reserves, with favorable development of $13.9 billion reported by those companies that had filed annual statements with A.M. Best by the date of the data contained herein. The Tower Group of Companies, which announced substantial reserve charges in late 2013, had not yet filed as of the date of the data. However, while Tower's reserve charges were significant, they do not materially impact the direction of the industry's results. Favorable development of prior years' losses was up 16%, from $11.9 billion in 2012.

In addition to the greater overall favorable development recognized by the industry in 2013, the percentage of groups reporting favorable development was up sharply. Of the companies that filed 2013 annual data with A.M. Best by March 29, 2014, 65.5% reported favorable development of prior years' loss reserves, a substantial increase over the 47% reporting favorable development in 2012.

While expecting the industry to continue releasing reserves, A.M. Best remains skeptical about whether more recent accident years' reserves were established at levels that support the redundancies recognized to date. The extent to which the decline in frequency and reduced increases in severity of workers' compensation claims in recent years are related to macroeconomic conditions, and whether they will re-emerge as significant concerns is not yet clear. The economic crisis also may have suppressed costs associated with claims from other long-tailed lines, particularly in light of the relatively moderate growth in medical costs. As the economy improves and even modest levels of inflation are seen, reserves established for these more recent years may prove to be insufficient, particularly given the level of favorable development that already has been recognized.

Policyholders' Surplus

On the strength of a record level of net income, the industry's PHS reached a record level of $662.9 at year-end 2013 (see **Exhibit 4**). Substantially improved underwriting results and much higher levels of realized and unrealized capital gains contributed to this increase. Higher tax payments and modestly increased stockholder dividends partially offset the benefit of net income and unrealized gains on surplus. Other changes in surplus, including changes in nonadmitted assets and deferred tax assets as well as accounting changes, had a negative impact on surplus in 2013. The change in accounting standards for pensions and post-retirement benefits was a substantial component of the total other changes in 2013.

Whether the industry can maintain disciplined underwriting and pricing as markets become more competitive will determine whether 2013 will be remembered merely as a fortunate combination of circumstances or the result of a permanent change in the industry's financial position.

Exhibit 4
U.S. Property/Casualty – 12-Month Change in Policyholders' Surplus

	12 Months 2012 (USD Billions)	12 Months 2013 (USD Billions)	Year/Year % Change
Beginning Policyholders' Surplus (PHS) at Prior Year End	**563.0**	**597.5**	**6.1%**
Net Income	38.7	70.5	82.3%
Unrealized Capital Gains/(Losses)	7.2	36.5	405.8
Contributed Capital	3.5	-0.8	N/M
Stockholder Dividends	-32.0	-34.6	8.1
Other Changes	17.1	-6.3	N/M
Ending Policyholders' Surplus	**597.5**	**662.9**	**10.9%**
Change in PHS from Prior Year End ($)	34.5	65.4	
After Tax Return on Surplus (ROE)	**6.7%**	**11.2%**	

Note: Figures may not add due to rounding.
N/M = not meaningful
Excludes Mortgage and Financial Guaranty Segments
Data as of March 29, 2014
Source: A.M. Best research

Personal Lines Segment

The personal lines segment's results improved substantially for the second consecutive year in 2013. After-tax net income was $20.9 billion compared with $11.6 billion in 2012, due mainly to continuing improvement in both underwriting experience and realized capital gains, and was partially offset by an associated increase in income taxes (see **Exhibit 5**). Pretax operating income was $20.5 billion in 2013, up from $11.2 billion in 2012. Underwriting income was positive, with a gain of $5.0 million for the year, compared with an underwriting loss of $4.8 billion in the prior year. Net investment income was relatively flat, declining slightly from $14.0 billion in 2012 to $13.8 billion in 2013.

NPW for personal lines grew by 5.4% in 2013 to $255.0 billion, driven by an increase of 4.6% in gross premium written, as well as a reduction in reinsurance pricing given overall market conditions (see **Exhibit 5**). This premium expansion reflects the continuing impact of rate actions in the homeowners segment. These rate increases, as well as higher deductibles and other tightened underwriting criteria, have been implemented in response to more severe weather patterns experienced in the past few years. More modest premium growth was noted again in the automobile lines, as economic factors have led to some deterioration in coverage per policy. Rate increases were implemented to keep up with increasing loss-cost trends due to inflation in both medical and property-damage losses.

The personal lines segment's net loss and loss-adjustment expense (LAE) ratio continued to show an improving trend in 2013, declining by four points to 70.3 from 74.3 in 2012 (see **Exhibit 3**). The combined ratio also improved to a profitable 97.5, down from 101.6 in the prior year. These developments reflect lower catastrophe losses due to generally milder weather patterns, as well as better overall normalized performance. Losses from catastrophe events added just 4.2 points to the combined ratio in 2013, down from 7.4 in the prior year.

Exhibit 5
U.S. Property/Casualty – Personal Lines Segment Key Figures

	12 Months 2012 (USD Billions)	12 Months 2013 (USD Billions)	Year/Year % Change
Net Premiums Written	241.9	255.0	5.4
Underwriting Gain/(Loss)	-4.8	5.0	N/M
Net Income	11.6	20.9	80.5
Policyholders' Surplus	230.6	261.4	13.3
After-Tax Return on Surplus (%)	5.2	8.5	

N/M = not meaningful
Data as of March 29, 2014
Source: A.M. Best research

Without the impact of catastrophes on underwriting results, the combined ratio was nearly a full point better at 93.2 in 2013, continuing a positive trend in baseline underwriting. Included in this combined ratio was 1.7 points of favorable loss development, down from 2.4 points in 2012.

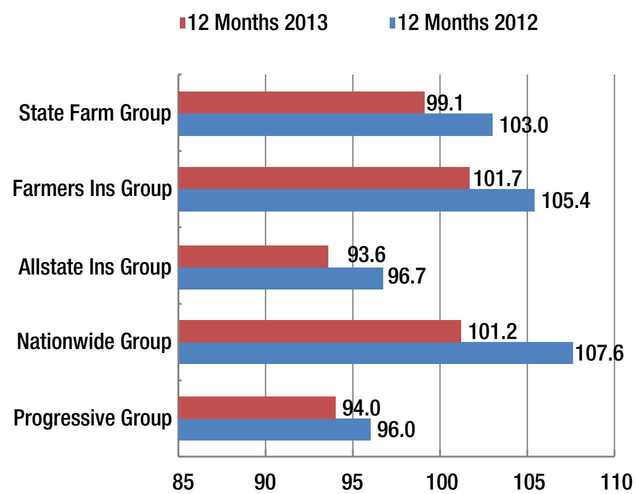
Net investment income was relatively flat, declining to $13.8 billion in 2013 from $14.0 billion in 2012, despite 10% growth in invested assets over the past year. Overall investment yield was down to 2.6% in 2013 from 2.8% in 2012, and yields were depressed in all asset classes. Lower bond rates and increasing positions in cash and short-term investments also impacted lower overall yields. Realized gains nearly doubled over the past year, up to $4.1 billion in 2013 from $2.2 billion in 2012, as insurers took advantage of continuing improvements in equity valuations. Furthermore, invested assets held in equities increased by 25% as insurers posted considerable unrealized gains given improved overall equity markets as of the end of 2013.

PHS increased by 13.3% to $261.4 billion in 2013 from $230.6 billion in 2012 (see **Exhibit 5**). This follows an increase of 7.5% in 2012. The greater surplus in 2013 was due to a continued trend of increasing after-tax net income, along with substantial unrealized gains in the investment portfolios. Overall there was a slight decline in stockholder dividends. However, as a result of increased contributed capital, the impact was relatively flat from 2012. Other changes to surplus of $4.8 billion included changes in deferred-tax assets, nonadmitted statutory assets and accounting practices.

As noted earlier, the personal lines segment's normalized underwriting performance improved for the second consecutive year in 2013. Evident in this result were the continued impacts of rate and deductible increases, more sophistication and granularity in underwriting, and careful attention to data elements and exposure concentrations. Furthermore, enterprise risk management (ERM) continues to evolve and advance as a concept and the industry persists in embracing and developing more formalized ways to integrate it into business cultures.

While the industry benefited from milder weather in 2013, highlighted by the absence of tropical storms making landfall on U.S. shores, these patterns cannot be expected every year. Overall earnings in the personal lines segment will continue to be pressured by low interest rates and the constant potential of severe weather.

Exhibit 6
U.S. Property/Casualty - Personal Lines Segment Combined Ratios
Top 5 groups ranked by 2013 gross premiums written.



Data as of March 29, 2014
Source: A.M. Best research

In addition, private passenger automobile insurers will face the challenge of keeping up with increases in claims costs while maintaining rate integrity. A.M. Best expects normalized results in the homeowners line to continue to improve as insurers remain focused on risk management initiatives.

Commercial Lines Segment

In line with the overall P/C industry, the commercial lines segment's underwriting and operating results improved substantially in 2013, with the industry posting favorable results on both its underwriting and investment portfolios. In general, the industry has balanced underwriting and investment risks, with gains in one area offset by losses in the other, producing an average five-year operating ratio of 92. In 2013, the commercial lines segment was rewarded with an improvement in both underwriting and investment risks and recorded an operating ratio of 83.

A profitable underwriting year – with notably low catastrophe losses, considerable realized gains and stable investment income – contributed to the strong results, with net income growing a robust 92.4% (see **Exhibit 7**). Not included in these operating results are unrealized capital gains, which skyrocketed to a $5.8 billion gain from a $6.7 billion loss position at the end of 2012. This trifecta, consisting of underwriting, investments and unrealized capital gains, increased PHS by $41.2 billion. However, two items of note, stockholder dividends and other changes, combined to offset more than $30 billion of that increase, for a net addition to PHS of $10.9 billion.

The improvement in underwriting results was the big news, up $16 billion in 2013 over the underwriting loss of $10.3 billion incurred in 2012. The combined ratio improved 8.5 points in 2013, to 96.3 from 104.8 in 2012, coming in under 100 for the first time since 2009. Underwriting results in 2013 benefited from a 4.8% increase in NPW to $200 billion and a similar increase in net earned premium. This growth was supported by better pricing over the past two years and, to a lesser extent, an increase in exposures as the economy continued its slow recovery and reinsurance pricing remained competitive. Growth in premium coupled with the reduction in losses improved the pure loss ratio 7.9 points to 52.6 in 2013 from 60.5 in 2012 (see **Exhibit 3**).

Exhibit 7

U.S. Property/Casualty – Commercial Lines Segment Key Figures

	12 Months 2012 (USD Billions)	12 Months 2013 (USD Billions)	Year/Year % Change
Net Premiums Written	190.9	200.0	4.8
Underwriting Gain/(Loss)	-10.3	5.7	N/M
Net Income	18.4	35.5	92.4
Policyholders' Surplus	232.2	243.1	4.7
After-Tax Return on Surplus (%)	8.1	14.9	

Excludes Mortgage and Financial Guaranty Segments
N/M = not meaningful
Data as of March 29, 2014
Source: A.M. Best research

Contributing to the improved underwriting performance was an increase in favorable development recognized on core reserves and a slight reduction in adverse development recorded on asbestos and environmental (A&E) reserves. Specifically, the combined ratio benefited from 4.6 points of favorable development on core reserves – which will be moderated somewhat when Tower Group files its year-end financial statements – up from the 3.8-point benefit in 2012. The 2013 core reserve improvement was offset by adverse development of 1.1 points on the A&E reserve, slightly better than 1.2 points of adverse development of A&E in 2012. The net reserve release was 3.5 points for 2013, up from the prior year's 2.6 points.

Release of loss reserves established for losses from 2012's Superstorm Sandy contributed to the increase in favorable developments in 2013. A.M. Best remains concerned that the commercial lines segment is not truly reflecting the more recent accident years' loss ratios, and the reserve takedowns are coming from an already deficient loss-reserve position on several of the commercial lines, most notably workers' comp, other liability and commercial multiperil.

Additionally, and most important, underwriting performance benefited from a 56% reduction in catastrophe-related losses in accident year 2013, a reduction of $9 billion from the $16 billion recorded in 2012. The 2013 cat losses were $7 billion and increased the combined ratio by 3.6 points, or 5 points less than the prior year.

The combined ratio also benefited from a modest reduction in the underwriting expense ratio to 29.6 from 29.9 in 2012, as premiums grew in part due to rate increases. The increase in premium levels mostly was absorbed by the existing underwriting infrastructure. On an absolute basis, underwriting expenses grew $2 billion in 2013, with NPW growing about $9 billion. In prior years, increases in the expense ratio were anecdotally attributed to costs associated with increased loss-control and underwriting technology. It appears as though the up-front expenditures for those investments in information technology may have benefited the expense ratio in 2013, as expenses increased at a slower rate than NPW.

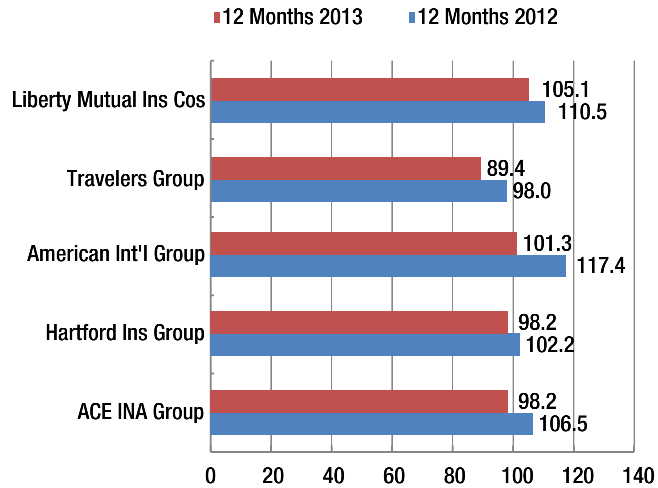
Policyholder dividends, which increased 4.1% in 2013, somewhat offset the effect of improved loss experience and underwriting expenses on the combined ratio.

Investment income, excluding realized gains, was up modestly as companies were able to hold onto the majority of their higher yielding bonds, and strong cash flows increased the invested asset base for most of the year. Also, the segment benefited from growth in relatively higher yielding alternative investments.

Exhibit 8

U.S. Property/Casualty – Commercial Lines Segment Combined Ratios

Top 5 groups ranked by 2013 gross premiums written.



Data as of March 29, 2014
Source: A.M. Best research

Given the detailed improvements in underwriting results and the stable net investment income in 2013, return on revenue (ROR) and ROE improved considerably in 2013. Pretax ROR improved significantly to 15.5% from a respectable 8.2% in 2012, and total ROE increased to 17.3% in 2013 from 5.1% in 2012.

Improved operating results and higher unrealized gains in 2013 contributed to the 4.7% increase in PHS to $243 billion from $232 billion in 2012. The growth in PHS was dampened by an increase in stockholder dividends to $23 billion from $19 billion in 2012. This increase was expected, given the favorable results experienced by the industry and the strong capital position maintained. Another material adjustment to PHS was a $7 billion decrease in PHS down from a gain of $14 billion in 2012. This was caused by a higher level of non-admitted deferred tax assets, a decrease in surplus notes due to pay downs, adjustments to liabilities for pensions and other post-retiremennt benefits, and other adjustments to surplus.

Exhibit 9

U.S. Property/Casualty – U.S. Reinsurance Segment Key Figures

	12 Months 2012 (USD Billions)	12 Months 2013 (USD Billions)	Year/Year % Change
Gross Premiums Written	39.0	40.3	3.3
Underwriting Gain/(Loss)	1.3	4.1	203.8
Net Income	8.6	14.1	63.3
Policyholders' Surplus	134.7	158.4	17.6
After-Tax Return on Surplus (%)	6.6%	9.6%	

Data as of March 29, 2014
Source: A.M. Best research

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