Management's Discussion & Analysis of
Financial Condition and Results of Operations

Quarter Ended March 31, 2014

Management's Discussion & Analysis of Financial Condition and Results of Operations

The following discussion highlights significant factors influencing results of operations and changes in financial position of Liberty Mutual Holding Company Inc., the parent corporation of the Liberty Mutual Insurance group of entities (the "Company" or "LMHC"), for the three months ended March 31, 2014 and 2013. This Management's Discussion & Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the Company's December 31, 2013 Audited Consolidated Financial Statements, March 31, 2014 Unaudited Consolidated Financial Statements and First Quarter 2014 Financial Supplement located on the Company's Investor Relations website at www.libertymutual.com/investors. The Company's discussions related to net income are presented in conformity with U.S. generally accepted accounting principles ("GAAP") on an after-tax basis. All other discussions are presented on a pre-tax GAAP basis, unless otherwise noted. Further, the Company notes that it may make material information regarding the Company available to the public, from time to time, via the Company's Investor Relations website at www.libertymutual.com/investors (or any successor site).

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Cautionary Statement Regarding Forward Looking Statements

This report contains forward looking statements that are intended to enhance the reader's ability to assess the Company's future financial and business performance. Forward looking statements include, but are not limited to, statements that represent the Company's beliefs concerning future operations, strategies, financial results or other developments, and contain words and phrases such as "may," "expects," "should," "believes," "anticipates," "estimates," "intends" or similar expressions. Because these forward looking statements are based on estimates and assumptions that are subject to significant business, economic and competitive uncertainties, many of which are beyond the Company's control or are subject to change, actual results could be materially different.

Some of the factors that could cause actual results to differ include, but are not limited to the following: the occurrence of catastrophic events (including terrorist acts, hurricanes, hail, tornados, tsunamis, earthquakes, floods, snowfall and winter conditions); inadequacy of loss reserves; adverse developments involving asbestos, environmental or toxic tort claims and litigation; adverse developments in the cost, availability or ability to collect reinsurance; disruptions to the Company's relationships with its independent agents and brokers; financial disruption or a prolonged economic downturn; the performance of the Company's investment portfolios; a rise in interest rates; risks inherent in the Company's alternative investments in private limited partnerships ("LP") and limited liability companies ("LLC"); difficulty in valuing certain of the Company's investments; subjectivity in the determination of the amount of impairments taken on the Company's investments; unfavorable outcomes from litigation and other legal proceedings, including the effects of emerging claim and coverage issues and investigations by state and federal authorities; the Company's exposure to credit risk in certain of its business operations; terrorist acts; the Company's inability to obtain price increases or maintain market share due to competition or otherwise; inadequacy of the Company's pricing models; changes to insurance laws and regulations; changes in the amount of statutory capital that the Company must hold to maintain its financial strength and credit ratings; regulatory restrictions on the Company's ability to change its methods of marketing and underwriting in certain areas; assessments for guaranty funds and mandatory pooling arrangements; a downgrade in the Company's claims-paying and financial strength ratings; the ability of the Company's subsidiaries to pay dividends to the Company; inflation, including inflation in medical costs and automobile and home repair costs; the cyclicality of the property and casualty insurance industry; political, legal, operational and other risks faced by the Company's international business; potentially high severity losses involving the Company's surety products; loss or significant restriction on the Company's ability to use credit scoring in the pricing and underwriting of personal lines policies; inadequacy of the Company's controls to ensure compliance with legal and regulatory standards; changes in federal or state tax laws; risks arising out of the Company's securities lending program; the Company's utilization of information technology systems and its implementation of technology innovations; difficulties with technology or data security; insufficiency of the Company's business continuity plan in the event of a disaster; the Company's ability to successfully integrate operations, personnel and technology from its acquisitions; insufficiency of the Company's enterprise risk management models and modeling techniques; and changing climate conditions. The Company's forward looking statements speak only as of the date of this report or as of the date they are made and should be regarded solely as the Company's current plans, estimates and beliefs. For a detailed discussion of these and other cautionary statements, visit the Company's Investor Relations website at www.libertymutual.com/investors. The Company undertakes no obligation to update these forward looking statements.

EXECUTIVE SUMMARY

The following highlights do not address all of the matters covered in the other sections of Management's Discussion & Analysis of Financial Condition and Results of Operations or contain all of the information that may be important to the investing public. This summary should be read in conjunction with the other sections of Management's Discussion & Analysis of Financial Condition and Results of Operations and the Company's 2014 Unaudited Consolidated Financial Statements.

Three Months Ended March 31, 2014 - Consolidated Results of Operations

- Revenues for the three months ended March 31, 2014 were $9.659 billion, an increase of $694 million or 7.7% over the same period in 2013.
- Net written premium ("NWP") for the three months ended March 31, 2014 was $8.786 billion, an increase of $355 million or 4.2% over the same period in 2013.
- Pre-tax operating income ("PTOI") for the three months ended March 31, 2014 was $669 million, an increase of $21 million or 3.2% over the same period in 2013.
- Catastrophe losses for the three months ended March 31, 2014 were $487 million, an increase of $265 million or 119.4% over the same period in 2013.
- LP and LLC income for the three months ended March 31, 2014 was $265 million, an increase of $217 million over the same period in 2013.
- Pre-tax loss associated with the Venezuela devaluation and foreign exchange under hyper inflationary accounting (including other than temporary impairments) was $274 million in 2014 compared to a pre-tax loss of $177 million in the same period in 2013.
- A net loss of $77 million associated with the disposition of the Argentina operations is included within Discontinued Operations for the three months ended March 31, 2014.
- Net income attributable to LMHC for the three months ended March 31, 2014 was $272 million, a decrease of $46 million or 14.5% from the same period in 2013.
- Cash flow from operations for the three months ended March 31, 2014 was $318 million, a decrease of $74 million or 18.9% from the same period in 2013.
- The consolidated combined ratio before catastrophes[1] and net incurred losses attributable to prior years[2] for the three months ended March 31, 2014 was 94.0%, a decrease of 0.9 points from the same period in 2013. Including the impact of catastrophes and net incurred losses attributable to prior years, the Company's combined ratio for the three months ended March 31, 2014 increased 1.5 points to 99.6%.

[1]Catastrophes include all current accident year catastrophe losses for severe storms in the U.S., U.K. and Ireland floods, and Cyclone Oswald. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

[2]Net incurred losses attributable to prior years is defined as incurred losses attributable to prior years (including prior year losses related to natural catastrophes and prior year catastrophe reinstatement premium) including both earned premium attributable to prior years and amortization of retroactive reinsurance gains.

Financial Condition as of March 31, 2014

- Total assets were $122.405 billion as of March 31, 2014, an increase of $1.123 billion or 0.9% over December 31, 2013.

- Total equity was $19.767 billion as of March 31, 2014, an increase of $755 million or 4.0% over December 31, 2013.

Subsequent Events

On April 1, 2014, the Company sold Summit Holding Southeast, Inc. and its related companies (together, “Summit”) to American Financial Group (NYSE/NASDAQ: AFG) in an all-cash transaction. Under the terms of the transaction, AFG paid the Company approximately $260 million at closing.

CONSOLIDATED RESULTS OF OPERATIONS

The Company has identified consolidated PTOI and PTOI before LP and LLC income as non-GAAP financial measures. PTOI is defined by the Company as pre-tax income excluding net realized gains, loss on extinguishment of debt, extraordinary items, discontinued operations, integration and other acquisition and realignment related costs and cumulative effects of changes in accounting principles. PTOI before LP and LLC income is defined as PTOI excluding LP and LLC results recognized on the equity method. PTOI before LP and LLC income and PTOI are considered by the Company to be appropriate indicators of underwriting and operating results and are consistent with the way the Company internally evaluates performance. Net realized gains and LP and LLC results are significantly impacted by both discretionary and economic factors and are not necessarily indicative of operating results, and the timing and amount of integration and other acquisition and realignment related costs and the extinguishment of debt are not connected to the management of the insurance and underwriting aspects of the Company's business. Income taxes are significantly impacted by permanent differences. References to NWP represent the amount of premium recorded for policies issued during a fiscal period including audits, retrospectively rated premium related to loss sensitive policies, and assumed premium, less ceded premium. Assumed and ceded reinsurance premiums include premium adjustments for reinstatement of coverage when a loss has used some portion of the reinsurance provided, generally under catastrophe treaties ("reinstatement premium"). In addition, the majority of workers compensation premium is adjusted to the "booked as billed" method through the Corporate and Other segment. The Company believes that NWP is a performance measure useful to investors as it generally reflects current trends in the Company's sale of its insurance products.

The Company's discussions related to net income are presented on an after-tax GAAP basis. All other discussions are presented on a pre-tax GAAP basis, unless otherwise noted.

Effective February 21, 2014 Liberty International Argentina Holdings S.A. ("LIAAR") and Liberty Risk Services Argentina S.A. ("LRSAR") were sold by Liberty International Latin America Holdings LLC ("LILAH") and Liberty UK and Europe Holdings Limited ("LITBUK") to LAFO S LLC and LAFT S LLC resulting in a net loss of $77 million. The results of LIAAR, LRSAR and their two Argentina subsidiaries, Liberty Seguros Argentina S.A. and Liberty Compania Argentina de Reaseguros Sociedad Anonima, are presented as Discontinued Operations on the accompanying Consolidated Statements of Income and are no longer included with Liberty International. All prior periods have been restated to reflect the sale.

On April 1, 2014, the Company sold Summit, a mono-line workers compensation company based in Florida, to American Financial Group. The results of Summit are presented as Discontinued Operations on the accompanying Consolidated Statements of Income and are no longer included with Commercial Insurance. All prior periods have been restated to reflect the sale.

Since 2010 the Company's Venezuela operations have met the requirements of hyperinflationary accounting whereby the reporting currency, the U.S. dollar, is the functional currency and the remeasurement of monetary assets and liabilities is recognized through the Consolidated Statements of Income.

In January 2014, the Venezuelan government issued Exchange Agreement No. 25, which required the use of a secondary exchange auction system referred to as the Complimentary System of Foreign Currency Acquirement ("SICAD I") that will be applied prospectively to certain transactions that previously were subject to the official rate. The National Center for Foreign Trade will be responsible for determining the sectors that will be allowed to buy U.S. dollars through the SICAD I auction. Upon announcement of Exchange Agreement No. 25 and completing consultation with external and internal advisors, the Company concluded that effective January 31, 2014, its operations no longer qualify for settlements at the official rate and elected to apply prospectively the SICAD I rates to the remeasurement of its Venezuela operations as this is believed the rate at which transactions will be settled prospectively. As SICAD I is an auction process, rates of bolivar ("VEF") to U.S. dollar will continue to fluctuate as it did from January 31, 2014 (11.36:1) to March 31, 2014 (10.7:1).

The aforementioned change resulted in the Company recognizing a net $20 million loss in PTOI comprised of a net loss from remeasuring its monetary assets and liabilities ($128 million), the net gain from the earn-through of unearned premium and amortization of deferred acquisition costs at historical rates ($110 million) and the amortization of basis on certain investments ($2 million). The Company also recognized a $254 million loss on the impairment of investments. In total, the Company recognized a pre-tax loss of $274 million in the Consolidated Statements of Income as well as a reduction of $128 million in other comprehensive income.

Additionally, on February 11, 2014, the government announced the launch of SICAD II, which is purportedly a free-floating currency exchange mechanism for the private sector. Transactions can be made in either currency or bonds and the price is based on bid-ask mechanisms. However, the government holds the right to intervene should prices move dramatically. There continues to be great uncertainty regarding the SICAD II mechanism. As such, at this time SICAD II is not seen as representative of the rate used by the Company to settle transactions and is not deemed appropriate for financial reporting translation. The Company shall continue to closely monitor the currency exchange mechanisms in Venezuela and will assess changes as they develop.

In February 2013, the Finance Minister in Venezuela announced the devaluation of the VEF by 32% to VEF 6.3:1 from VEF 4.3:1 and the elimination of the Sistema de Transacciones con Titulos en Moneda Extranjera (SITME) rate. As a result of the devaluation, the Company recognized a net $46 million gain in PTOI comprised of a net loss, primarily from remeasuring its monetary assets and liabilities ($28 million), offset by a net gain from the earn-through of unearned premium and amortization of deferred acquisition costs at historical rates ($74 million). The Company also recognized a $223 million loss on the impairment of investments. In total, the Company recognized a pre-tax loss of $177 million in the Consolidated Statements of Income as well as a reduction of $59 million in other comprehensive income attributable to unrealized losses on certain investments.

The Company's four SBUs are as follows:

- Personal Insurance includes all domestic personal lines business. Liberty Mutual Insurance and Safeco Insurance brands and products are distributed through separately managed distribution channels. Personal Insurance also includes the Individual Life business, which sells life and annuity products.

- Commercial Insurance offers a wide array of property-casualty and group benefits insurance coverages through independent agents, brokers and benefit consultants throughout the United States. Commercial Insurance is organized into the following four market segments: Business Insurance, National Insurance, Group Benefits, and Other Commercial Insurance.

- Liberty International sells property, casualty, health and life insurance products and services to individuals and businesses in four operating segments: Latin America, Europe, Asia and as of January 2014, Large Emerging Markets, including Russia, China and India.

- Global Specialty is composed of a wide array of products and services offered through three market segments: Liberty International Underwriters ("LIU"), Liberty Specialty Markets ("LSM") and Liberty Mutual Surety ("LM Surety"). The integration of LSM occurred during the first quarter of 2014. LSM is composed of Liberty Syndicate ("Syndicate 4472") and Liberty Mutual Insurance Europe ("LMIE"), formerly included in LIU, and Liberty Mutual Reinsurance ("LMR").

Overview – Consolidated

Consolidated NWP by significant line of business was as follows:

	Three Months Ended March 31,		
$ in Millions	**2014**	**2013**	**Change**
Private passenger automobile	$3,096	$2,968	4.3%
Homeowners	1,208	1,015	19.0
Specialty insurance[1]	736	612	20.3
Commercial multiple-peril / fire	621	627	(1.0)
Workers compensation - Voluntary	551	666	(17.3)
Workers compensation - Involuntary	38	33	15.2
Global specialty reinsurance	500	521	(4.0)
Commercial automobile	457	458	(0.2)
General liability	362	326	11.0
Group disability and group life	341	317	7.6
Individual life and health	229	238	(3.8)
Surety	184	185	(0.5)
Inland marine	140	138	1.4
Other[2]	323	327	(1.2)
Total NWP[3]	$8,786	$8,431	4.2%

1 Specialty insurance is included in Global Specialty. Refer to Global Specialty's section for more detail.
2 Primarily includes NWP from assumed voluntary reinsurance ("AVR"), allied lines and domestic inland marine.
3 NWP associated with internal reinsurance has been re-allocated to the appropriate lines of business.

NWP for the three months ended March 31, 2014 was $8.786 billion, an increase of $355 million over the same period in 2013. Significant changes by major line of business include:

- Private passenger automobile NWP increased $128 million over the same period in 2013. The increase reflects rate and model year increases in Personal Insurance and growth of automobiles insured to over 16 million globally.
- Homeowners NWP increased $193 million over the same period in 2013. The increase reflects growth of policies in-force, rate and coverage increases in Personal Insurance and a decrease in ceded premium related to a quota share treaty due to a change in terms.
- Specialty insurance increased $124 million over the same period in 2013. The increase reflects growth driven by Syndicate 4472, LMIE and LIU U.S. primarily due to new business, higher renewals and reinsurance program changes.
- Workers compensation - Voluntary NWP decreased $115 million from the same period in 2013. The decrease was driven by exposure reductions partially offset by continued positive rate.
- Global specialty reinsurance NWP decreased $21 million from the same period in 2013. The decrease is primarily due to competitive market conditions and lower rates.
- General liability NWP increased $36 million over the same period in 2013 primarily due to rate increases and new business.
- Group disability and group life NWP increased $24 million over the same period in 2013. The increase reflects an increase in new business.

More detailed explanations of the changes in NWP by line of business are included in the related discussion of financial results for each segment.

Consolidated NWP by SBU was as follows:

	Three Months Ended March 31,		
$ in Millions	**2014**	**2013**	**Change**
Personal Insurance	$3,818	$3,541	7.8%
Commercial Insurance	2,087	2,126	(1.8)
Liberty International	1,284	1,332	(3.6)
Global Specialty	1,485	1,400	6.1
Corporate and Other	112	32	NM
Total NWP	$8,786	$8,431	4.2%
Foreign exchange effect on NWP change			3.6
NWP change excluding foreign exchange[1]			7.8%

1 Determined by assuming constant foreign exchange rates between periods.
NM = Not Meaningful

Major drivers of NWP growth were as follows:

	Three Months Ended March 31,			
$ in Millions	**2014**	**2013**	**$ Change**	**Points Attribution**
Total NWP[1]	$8,786	$8,431	$355	4.2
Components of Growth:				
Domestic personal automobile	2,345	2,197	148	1.8
-Domestic homeowners	1,176	1,050	126	1.5
-Homeowners quota share	(30)	(94)	64	0.8
Total domestic homeowners	1,146	956	190	2.3
International local businesses (ex foreign exchange)[2]	1,597	1,332	265	3.1
Specialty insurance (ex foreign exchange)[2]	740	618	122	1.4
Global specialty reinsurance (ex foreign exchange)[2]	498	521	(23)	(0.3)
Inland marine (ex foreign exchange)[2]	139	138	1	-
Domestic workers compensation	546	655	(109)	(1.3)
Domestic individual life	109	113	(4)	-
Domestic group disability and group life	244	216	28	0.3
Surety	184	185	(1)	-
Foreign exchange[2]	(306)	-	(306)	(3.6)
Other commercial lines	1,544	1,500	44	0.5
Total NWP	$8,786	$8,431	$355	4.2

1 NWP associated with internal reinsurance has been re-allocated to the appropriate lines of business.
2 Determined by assuming constant foreign exchange rates between periods.

Consolidated NWP by geographic distribution channels was as follows:

	Three Months Ended March 31,		
$ in Millions	**2014**	**2013**	**Change**
U.S.	$6,644	$6,313	5.2%
International[1]	2,142	2,118	1.1
Total NWP	$8,786	$8,431	4.2%

1 Excludes domestically written business in Global Specialty's LIU market segment.

For a more complete description of the Company's business operations, products and distribution channels, and other material information, please visit the Company's Investor Relations web site at www.libertymutual.com/investors.

Results of Operations – Consolidated

	Three Months Ended March 31,		
$ in Millions	**2014**	**2013**	**Change**
Revenues	$9,659	$8,965	7.7%
PTOI before catastrophes, net incurred losses attributable to prior years, Venezuela devaluation and foreign exchange and LP and LLC income	$874	$799	9.4%
Catastrophes[1]	(487)	(222)	119.4
Net incurred losses attributable to prior years:			
- Asbestos & environmental	(1)	(1)	-
- All other[2]	38	(22)	NM
Venezuela devaluation and foreign exchange	(20)	46	NM
PTOI before LP and LLC income	404	600	(32.7)
LP and LLC income[3]	265	48	NM
PTOI	669	648	3.2
Net realized losses	(205)	(197)	4.1
SBU realignment expense	-	(1)	(100.0)
Loss on extinguishment of debt	-	(21)	(100.0)
Pre-tax income	464	429	8.2
Income tax expense	138	124	11.3
Consolidated net income before discontinued operations	326	305	6.9
Discontinued operations, net of tax	(64)	5	NM
Consolidated net income	262	310	(15.5)
Less: Net loss attributable to non-controlling interest	(10)	(8)	25.0
Net income attributable to LMHC	$272	$318	(14.5%)
Cash flow from operations	$318	$392	(18.9%)

1 Catastrophes include all current accident year catastrophe losses for severe storms in the U.S., U.K. and Ireland floods, and Cyclone Oswald. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

2 Net of earned premium and reinstatement premium attributable to prior years of $25 million for the three months ended March 31, 2014 and $10 million for the same period in 2013. Net of amortization of deferred gains on retroactive reinsurance of $1 million for the three months ended March 31, 2014 and $10 million for the same period in 2013.

3 LP and LLC income is included in net investment income in the accompanying Consolidated Statements of Income.

NM = Not Meaningful

PTOI for the three months ended March 31, 2014 was $669 million, an increase of $21 million over the same period in 2013. The increase reflects continued improvement in underwriting results, excluding the impact of catastrophes, due to improved claims and claim adjustment expense ratios in most business units, partially offset by higher underwriting expense ratios in most business units. The PTOI impact of Personal Insurance’s higher loss ratio was more than offset by business growth. In addition, the Company had higher LP and LLC income. These increases were partially offset by higher catastrophes and the impact of the Venezuela devaluation and foreign exchange.

Revenues for the three months ended March 31, 2014 were $9.659 billion, an increase of $694 million over the same period in 2013. The major components of revenues are net premium earned, net investment income, net realized gains, and fee and other revenues.

Net premium earned for the three months ended March 31, 2014 was $8.629 billion, an increase of $464 million over the same period in 2013. The increase primarily reflects strong written premium growth in the last nine months of 2013 and the first quarter of 2014 including rate increases.

Net investment income for the three months ended March 31, 2014 was $891 million, an increase of $170 million over the same period in 2013. The increase is primarily a result of higher valuation changes in LP and LLC investments, which benefited from an increase in IPO activity as well as strong financial performance in the underlying investments. Those increases are partially offset by a reduction in interest income due to lower investment yields as well as valuation decreases in other equity method investments.

Net realized losses for the three months ended March 31, 2014 were $205 million, an increase of $8 million over the same period in 2013. The increase in net losses primarily relates to impairment losses recognized as a result of the change in the Venezuela currency exchange rate in 2014 and the Venezuela government's devaluation of its currency in February 2013.

Fee and other revenues for the three months ended March 31, 2014 were $344 million, an increase of $68 million over the same period in 2013. The increase primarily reflects higher oil and gas revenues (in Corporate and Other) and servicing revenues (in Commercial Insurance) due to higher involuntary market premium volume and third-party administrator fee income.

Claims, benefits and expenses for the three months ended March 31, 2014 were $9.195 billion, an increase of $681 million over the same period in 2013. The increase reflects losses and expenses consistent with business growth, higher catastrophe losses, the impact of the Venezuela devaluation and foreign exhange and increased advertising expenses as a result of the 2014 Winter Olympics.

There was no debt issued or repurchased during the three months ended March 31, 2014. Two hundred and thirty nine million dollars of 5.75% Notes matured on March 15, 2014. During the three months ended March 31, 2013, $38 million of debt was extinguished with a pre-tax loss of $21 million.

Income tax expense for the three months ended March 31, 2014 was $138 million, an increase of $14 million over the same period in 2013. The Company's effective tax rate for the three months ended March 31, 2014 was 30% compared to 29% for the same period in 2013. The Company's effective tax rate differs from the U.S. Federal statutory rate of 35% principally due to tax-exempt investment income, non-U.S. operations and general business credits.

Net income attributable to LMHC for the three months ended March 31, 2014 was $272 million, a decrease of $46 million from the same period in 2013.

Cash flow from operations for the three months ended March 31, 2014 was $318 million, a decrease of $74 million from the same period in 2013. The decrease was driven by higher catastrophe losses and litigation settlements in 2013 that did not recur. The decrease was partially offset by a reduction in pension funding.

	Three Months Ended March 31,		
CONSOLIDATED	**2014[1]**	**2013[1]**	**Change (Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years			
Claims and claim adjustment expense ratio	63.2%	64.5%	(1.3)
Underwriting expense ratio	30.7	30.3	0.4
Dividend ratio	0.1	0.1	-
Subtotal	94.0	94.9	(0.9)
Catastrophes[2]	6.0	2.9	3.1
Net incurred losses attributable to prior years:			
- Asbestos & environmental	-	-	-
- All other[3]	(0.4)	0.3	(0.7)
Total combined ratio[4]	99.6%	98.1%	1.5

1 The combined ratio has been adjusted to exclude the impact of the Venezuela devaluation and foreign exchange.

2 Catastrophes include all current accident year catastrophe losses for severe storms in the U.S., U.K. and Ireland floods, and Cyclone Oswald. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

3 Net of earned premium and reinstatement premium attributable to prior years and amortization of deferred gains on retroactive reinsurance.

4 The combined ratio, expressed as a percentage, is a measure of underwriting profitability. This measure should only be used in conjunction with, and not in lieu of, underwriting income and may not be comparable to other performance measures used by the Company's competitors. The combined ratio is computed as the sum of the following property and casualty ratios: the ratio of claims and claim adjustment expense to earned premium; the ratio to earned premium of insurance operating costs plus amortization of deferred policy acquisition costs less fee income (primarily related to the Company's involuntary market servicing carrier operations and managed care income), and less installment charges; and the ratio of policyholder dividends to earned premium. Provisions for uncollectible premium and reinsurance are not included in the combined ratio unless related to an asbestos and environmental commutation and certain other run off.

The consolidated combined ratio before catastrophes and net incurred losses attributable to prior years for the three months ended March 31, 2014 was 94.0%, a decrease of 0.9 points from the same period in 2013. The decrease in the claims and claim adjustment expense ratio reflects improvement in current accident year loss ratios across most business units. The increase in the underwriting expense ratio reflects higher commission expense in Global Specialty and Liberty International as well as expenses to support growth in Large Emerging Markets and the impact of lower Commercial Insurance volume.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three months ended March 31, 2014 was 99.6%, an increase of 1.5 points over the same period in 2013. The increase reflects higher catastrophe losses, partially offset by the changes in the combined ratio previously discussed and favorable net incurred losses attributable to prior years.

PERSONAL INSURANCE

Overview – Personal Insurance

Personal Insurance sells automobile, homeowners and other types of property and casualty insurance coverage, as well as life and annuity products, to individuals in the United States. Personal Insurance is composed of two market segments: Personal Lines and Safeco. Personal Lines products are distributed through more than 2,500 licensed captive sales representatives, approximately 500 licensed telesales counselors, third-party producers (including banks for life products) and the Internet. Personal Lines' largest source of new business is through its over 16,000 sponsored affinity groups (including employers, professional and alumni associations, credit unions, and other partnerships). Safeco products are distributed nationally through independent agents.

Personal Insurance NWP by market segment was as follows:

	Three Months Ended March 31,		
$ in Millions	**2014**	**2013**	**Change**
Personal Lines	$2,213	$2,057	7.6%
Safeco	1,605	1,484	8.2
Total NWP	$3,818	$3,541	7.8%

Personal Insurance NWP by line of business was as follows:

	Three Months Ended March 31,		
$ in Millions	**2014**	**2013**	**Change**
Private passenger automobile	$2,341	$2,192	6.8%
Homeowners and other	1,371	1,238	10.7
Individual life	106	111	(4.5)
Total NWP	$3,818	$3,541	7.8%

NWP for the three months ended March 31, 2014 was $3.818 billion, an increase of $277 million over the same period in 2013.

Private passenger automobile NWP for the three months ended March 31, 2014 was $2.341 billion, an increase of $149 million over the same period in 2013. The increase in premium reflects 4.3% growth in auto policies in-force as compared to March 31, 2013 as well as rate and model year increases.

Homeowners and other NWP for the three months ended March 31, 2014 was $1.371 billion, an increase of $133 million over the same period in 2013. The increase in premium reflects 3.9% growth in homeowners policies in-force as compared to March 31, 2013 as well as rate and coverage increases.

Individual life NWP for the three months ended March 31, 2014 was $106 million, a decrease of $5 million from the same period in 2013. The decrease was primarily driven by lower structured settlement sales.

Results of Operations – Personal Insurance

	Three Months Ended March 31,		
$ in Millions	**2014**	**2013**	**Change**
Revenues	$4,151	$3,775	10.0%
PTOI before catastrophes, net incurred losses attributable to prior years and LP and LLC income	570	540	5.6
Catastrophes[1]	(335)	(169)	98.2
Net incurred losses attributable to prior years	(10)	(16)	(37.5)
PTOI before LP and LLC income	225	355	(36.6)
LP and LLC income[2]	9	1	NM
PTOI	$234	$356	(34.3%)

1 Catastrophes include all current accident year catastrophe losses. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

2 LP and LLC income is included in net investment income in the accompanying Consolidated Statements of Income.

NM = Not Meaningful

PTOI for the three months ended March 31, 2014 was $234 million, a decrease of $122 million from the same period in 2013. The decrease was driven by higher current year catastrophes in 2014, favorable prior year catastrophe development in 2013, higher current accident year non-catastrophe losses across most lines of business and higher advertising expenses as a result of the 2014 Winter Olympics. These items were partially offset by less unfavorable prior year development and business growth.

Revenues for the three months ended March 31, 2014 were $4.151 billion, an increase of $376 million over the same period in 2013. The major components of revenues are net premium earned, net investment income, and fee and other income.

Net premium earned for the three months ended March 31, 2014 was $3.811 billion, an increase of $351 million over the same period in 2013. The increase reflects the premium earned associated with the changes in NWP previously discussed and NWP growth during the last nine months of 2013.

Net investment income for the three months ended March 31, 2014 was $271 million, an increase of $17 million over the same period in 2013. The increase was driven by a higher invested asset base partially offset by a lower investment yield.

Fee and other income for the three months ended March 31, 2014 was $68 million, an increase of $8 million over the same period in 2013. The increase was driven by additional fees associated with single premium whole life policies.

Claims, benefits and expenses for the three months ended March 31, 2014 were $3.916 billion, an increase of $498 million over the same period in 2013. The increase was driven by growth across all lines of business, higher current year catastrophes in 2014 and favorable prior year catastrophe development in 2013. The increase was also driven by unfavorable current accident year non-catastrophe loss trends across most lines of business as well as higher advertising expenses due to the 2014 Winter Olympics. These items were partially offset by less unfavorable prior year development for 2014 auto liability losses relative to the prior year.

	Three Months Ended March 31,		
PERSONAL INSURANCE	**2014**	**2013**	**Change (Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years			
Claims and claim adjustment expense ratio	62.2%	61.4%	0.8
Underwriting expense ratio	26.0	26.2	(0.2)
Subtotal	88.2	87.6	0.6
Catastrophes[1]	9.0	5.0	4.0
Net incurred losses attributable to prior years	0.3	0.5	(0.2)
Total combined ratio	97.5%	93.1%	4.4

1 Catastrophes include all current accident year catastrophe losses. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

The Personal Insurance combined ratio before catastrophes and net incurred losses attributable to prior years for the three months ended March 31, 2014 was 88.2%, an increase of 0.6 points over the same period in 2013. The increase in the claims and claim adjustment expense ratio primarily reflects unfavorable current accident year non-catastrophe loss trends across most lines of business, partially offset by claim adjustment expenses growing at a slower rate than premiums earned. Although advertising expense increased from the same period in 2013 as a result of the 2014 Winter Olympics, the underwriting expense ratio decreased due to premiums earned growing at a faster rate than overall expenses.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three months ended March 31, 2014 was 97.5%, an increase of 4.4 points over the same period in 2013. The increase reflects higher catastrophe losses in 2014 partially offset by less unfavorable prior year development for 2014 auto liability losses relative to the prior year.

COMMERCIAL INSURANCE

Overview – Commercial Insurance

Commercial Insurance offers a wide array of property-casualty and group benefits insurance coverages through independent agents, brokers and benefit consultants throughout the United States. Commercial Insurance is organized into the following four market segments: Business Insurance, National Insurance, Group Benefits, and Other Commercial Insurance. Business Insurance serves small and middle market customers through a regional operating model that combines local underwriting, market knowledge and service with the scale advantages of a national company. National Insurance provides commercial lines products and services, including third-party administration, to large businesses. Group Benefits provides mid-sized and large businesses with short and long-term disability and group life insurance. Other Commercial Insurance primarily consists of internal reinsurance and assumed business from state-based workers compensation involuntary market pools. The Company is also a servicing carrier for state-based workers compensation involuntary market pools.

On April 1, 2014, the Company sold Summit, a mono-line workers compensation company based in Florida, to American Financial Group. The results of Summit are presented as Discontinued Operations on the accompanying Consolidated Statements of Income and are no longer included with Commercial Insurance. All prior periods have been restated to reflect the sale.

Commercial Insurance NWP by market segment was as follows:

	Three Months Ended March 31,		
$ in Millions	**2014**	**2013**	**Change**
Business Insurance	$1,270	$1,296	(2.0%)
National Insurance	521	574	(9.2)
Group Benefits	244	215	13.5
Other Commercial Insurance	52	41	26.8
Total NWP	$2,087	$2,126	(1.8%)

Commercial Insurance NWP by line of business was as follows:

	Three Months Ended March 31,		
$ in Millions	**2014**	**2013**	**Change**
Workers compensation - Voluntary	$477	$602	(20.8%)
Workers compensation - Involuntary	38	33	15.2
Commercial multiple-peril	486	483	0.6
Commercial automobile	348	342	1.8
General liability	298	263	13.3
Group disability and group life	244	215	13.5
Other lines	196	188	4.3
Total NWP	$2,087	$2,126	(1.8%)

NWP for the three months ended March 31, 2014 was $2.087 billion, a decrease of $39 million from the same period in 2013. The decrease was driven by workers compensation due to exposure reductions partially offset by increased involuntary business and continued positive rate. Also offsetting the decrease were rate gains, higher retention and new business across most other lines of business.

Results of Operations – Commercial Insurance

	Three Months Ended March 31,		
$ in Millions	**2014**	**2013**	**Change**
Revenues	$2,471	$2,554	(3.2%)
PTOI before catastrophes and net incurred losses attributable to prior years	$262	$224	17.0%
Catastrophes[1]	(123)	(40)	NM
Net incurred losses attributable to prior years[2]	22	35	(37.1)
PTOI	$161	$219	(26.5%)

1 Catastrophes include all current accident year catastrophe losses. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

2 Net of earned premium and reinstatement premium attributable to prior years of $15 million for the three months ended March 31, 2014 and ($8) million for the same period in 2013. Net of amortization of deferred gains on assumed retroactive reinsurance of $1 million for the three months ended March 31, 2014 and 2013.

NM=Not Meaningful

PTOI for the three months ended March 31, 2014 was $161 million, a decrease of $58 million from the same period in 2013. The decrease was driven by higher catastrophe and non-catastrophe related property losses, lower net investment income, and increased information technology expenditures. These increases were partially offset by decreased current accident year loss ratios across most liability lines of business and lower salary and benefit costs.

Revenues for the three months ended March 31, 2014 were $2.471 billion, a decrease of $83 million from the same period in 2013. The major components of revenues are net premium earned, net investment income and fee and other revenues.

Net premium earned for the three months ended March 31, 2014 was $2.129 billion, a decrease of $73 million from the same period in 2013. The decrease reflects the premium earned associated with the changes in NWP previously discussed and a decrease in NWP during the last nine months of 2013 primarily due to a decline in workers compensation premium.

Net investment income for the three months ended March 31, 2014 was $250 million, a decrease of $19 million from the same period in 2013. The decrease was primarily driven by lower investment yields.

Fee and other revenues for the three months ended March 31, 2014 were $92 million, an increase of $9 million over the same period in 2013. The increase reflects higher third-party administrator fee income and higher commission revenue from servicing carrier operations due to higher involuntary market premium volume. As a servicing carrier, the Company receives fee income for performing certain underwriting, claims and administrative services for all participating involuntary pool members.

Claims, benefits, and expenses for the three months ended March 31, 2014 were $2.310 billion, a decrease of $25 million from the same period in 2013. The decrease was driven by lower current accident year losses across most liability lines of business and lower salary and benefit costs, partially offset by higher catastrophe losses, higher property losses, and increased information technology expenditures.

	Three Months Ended March 31,		
			Change
COMMERCIAL INSURANCE	**2014**	**2013**	**(Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years			
Claims and claim adjustment expense ratio	67.8%	71.0%	(3.2)
Underwriting expense ratio	30.9	30.2	0.7
Dividend ratio	0.2	0.2	-
Subtotal	98.9	101.4	(2.5)
Catastrophes[1]	6.6	2.0	4.6
Net incurred losses attributable to prior years[2]	(1.3)	(1.8)	0.5
Total combined ratio	104.2%	101.6%	2.6

1 Catastrophes include all current accident year catastrophe losses. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

2 Net of earned premium and reinstatement premium attributable to prior years and amortization of deferred gains on retroactive reinsurance.

The Commercial Insurance combined ratio before catastrophes and net incurred losses attributable to prior years for the three months ended March 31, 2014 was 98.9%, a decrease of 2.5 points from the same period in 2013. The claims and claim adjustment expense ratio for the period was impacted by decreased current accident year losses across most liability lines of business, partially offset by higher property losses. The increase in the underwriting expense ratio reflects increased information technology expenditures and lower earned premium, partially offset by lower salary and benefit costs.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three months ended March 31, 2014 was 104.2%, an increase of 2.6 points over the same period in 2013. The increase reflects higher catastrophe losses and less favorable development of prior accident year catastrophe losses, partially offset by the changes to the combined ratio previously discussed.

LIBERTY INTERNATIONAL

Overview – Liberty International

Liberty International sells property, casualty, health and life insurance products and services to individuals and businesses in four operating segments: Latin America, including Venezuela, Brazil, Colombia, Chile and Ecuador; Europe, including Spain, Portugal, Turkey, Poland, Ireland and the United Kingdom; Asia, including Thailand, Singapore, Hong Kong and Vietnam; and as of January 2014, Large Emerging Markets, including Russia, China and India. Private passenger automobile insurance is the single largest line of business.

Effective February 21, 2014 Liberty International Argentina Holdings S.A. (“LIAAR”) and Liberty Risk Services Argentina S.A. (“LRSAR”) were sold by Liberty International Latin America Holdings LLC (“LILAH”) and Liberty UK and Europe Holdings Limited (“LITBUK”) to LAFO S LLC and LAFT S LLC., resulting in a net loss of $77 million. The results of LIAAR, LRSAR and their two Argentina subsidiaries Liberty Seguros Argentina S.A. and Liberty Compania Argentina de Reaseguros Sociedad Anonima, are presented as Discontinued Operations on the accompanying Consolidated Statements of Income and are no longer included with Liberty International. All prior periods have been restated to reflect the sale.

Liberty International NWP by market segment was as follows:

	Three Months Ended March 31,			
$ in Millions	**2014**	**2013**	**Change**	**Change ex. foreign exchange**
Latin America	$779	$839	(7.2%)	30.7%
Europe	352	356	(1.1)	(4.4)
Asia	99	96	3.1	7.9
Large Emerging Markets	54	41	31.7	36.9
Total NWP	$1,284	$1,332	(3.6%)	19.9%

1 Determined by assuming constant foreign exchange rates between periods.

Liberty International NWP by line of business was as follows:

	Three Months Ended March 31,		
$ in Millions	**2014**	**2013**	**Change**
Private passenger automobile	$751	$771	(2.6%)
Commercial automobile	108	116	(6.9)
Homeowners	62	59	5.1
Life and health	217	226	(4.0)
Other [1]	146	160	(8.8)
Total NWP	$1,284	$1,332	(3.6%)

1 Premium related to other personal and commercial lines including personal accident, bonds, workers compensation, property and fire, small and medium enterprise and marine and cargo lines of business.

NWP for the three months ended March 31, 2014 was $1.284 billion, a decrease of $48 million from the same period in 2013. The decrease reflects the impact of the Venezuela devaluation and foreign exchange and to a lesser extent, a weakened Brazilian real. The decrease was offset by local currency growth, primarily in Venezuela due to increases in sum insured values in the auto and health lines of business resulting from inflation, an increase in new private passenger auto business in Brazil and expansion in Large Emerging Markets, where all operations experienced double digit growth.

Results of Operations – Liberty International

	Three Months Ended March 31,		
$ in Millions	**2014**	**2013**	**Change**
Revenues	$1,314	$1,314	-
PTOI before catastrophes, net incurred losses attributable to prior years and Venezuela devaluation and foreign exchange	$37	$47	(21.3%)
Catastrophes[1]	(9)	-	NM
Net incurred losses attributable to prior years	5	3	66.7
Venezuela devaluation and foreign exchange	(18)	49	NM
PTOI	$15	$99	(84.8%)

1 Catastrophes include all current accident year catastrophe losses for the U.K. and Ireland floods. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.
NM = Not Meaningful

PTOI for the three months ended March 31, 2014 was $15 million, a decrease of $84 million from the same period in 2013. The decrease primarily reflects the impact of the Venezuela devaluation and foreign exchange and catastrophe losses due to the U.K. and Ireland floods. The decrease was partially offset by favorable auto loss activity in Venezuela as a result of improved claims frequency driven by civil protests reducing driving patterns, favorable private passenger auto severity in Brazil due to enhanced fraud controls and cost containment efforts and favorable incurred losses attributable to prior years, primarily in Ireland due to a favorable claim settlement.

Revenues for the three months ended March 31, 2014 were $1.314 billion, no change from the same period in 2013. The primary components of revenues are net premium earned, net investment income and net realized investment loss.

Net premium earned for the three months ended March 31, 2014 was $1.435 billion, an increase of $31 million over the same period in 2013. The increase reflects growth in net written premium in the second half of 2013, partially offset by the impact of foreign exchange, including devaluation.

Net investment income for the three months ended March 31, 2014 was $92 million, a decrease of $11 million from the same period in 2013. The unfavorable impact was largely driven by a lower invested asset base and lower reinvestment rates in Venezuela.

Net realized investment loss for the three months ended March 31, 2014 was $254 million, an increase of $24 million over the same period in 2013, primarily driven by a higher impairment of Venezuelan BsF denominated investments resulting from the impact of the 2014 devaluation over the prior year devaluation.

Claims, benefits and expenses for the three months ended March 31, 2014 were $1.553 billion, an increase of $108 million over the same period in 2013. The increase reflects the impact of the Venezuela devaluation and foreign exchange and catastrophe losses due to the U.K. and Ireland floods. The increase was partially offset by favorable net incurred losses in Venezuela, favorable private passenger auto severity in Brazil and favorable incurred losses attributable to prior years, primarily in Ireland due to a favorable claim settlement.

	Three Months Ended March 31,		
LIBERTY INTERNATIONAL	**2014[1]**	**2013[1]**	**Change (Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years			
Claims and claim adjustment expense ratio	64.6%	65.7%	(1.1)
Underwriting expense ratio	39.6	38.5	1.1
Subtotal	104.2	104.2	-
Catastrophes[2]	0.7	-	0.7
Net incurred losses attributable to prior years	(0.4)	(0.2)	(0.2)
Total combined ratio	104.5%	104.0%	0.5

1 The combined ratio has been adjusted to exclude the impact of the Venezuela devaluation and foreign exchange.

2 Catastrophes include all current accident year catastrophe losses for the U.K. and Ireland floods. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

The Liberty International combined ratio before catastrophes and net incurred losses attributable to prior years for the three months ended March 31, 2014 was 104.2%, no change over the same period in 2013. The underwriting expense ratio increased 1.1 points driven primarily by Brazil due to an increase in profit sharing commissions as a result of favorable sales. The increase in the underwriting expense ratio was offset by a decrease in the claims and claim adjustment expense ratio, primarily driven by Venezuela as political and social turmoil positively impacted auto claims frequency and favorable private passenger auto severity in Brazil due to enhanced fraud controls and cost containment efforts.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three months ended March 31, 2014 was 104.5%, an increase of 0.5 points over the same period in 2013. The total combined ratio reflects the changes in the combined ratio previously discussed, as well as catastrophe losses related to U.K. and Ireland floods, offset by favorable incurred losses attributable to prior years, primarily in Ireland due to a favorable claim settlement.

GLOBAL SPECIALTY

Overview – Global Specialty

Global Specialty is composed of a wide array of products and services offered through three market segments: LIU, LSM and LM Surety. LIU, which sells inland marine and specialty commercial insurance worldwide, through offices in Asia, Australia, the Middle East, North America and Latin America. LSM provides specialty insurance, inland marine and reinsurance worldwide through its three divisions: Syndicate 4472, LMIE and LMR. LM Surety is a leading provider of nationwide contract and commercial surety bonds to businesses of all sizes. Other primarily consists of internal reinsurance.

The integration of LSM occurred during the first quarter of 2014. LSM is composed of Syndicate 4472 and LMIE, formerly included in LIU, and LMR. All prior periods have been restated to reflect this change.

Global Specialty NWP by market segment was as follows:

	Three Months Ended March 31,		
$ in Millions	**2014**	**2013**	**Change**
LSM	$885	$833	6.2%
LIU	396	369	7.3
LM Surety	178	182	(2.2)
Other	26	16	62.5
Total NWP	$1,485	$1,400	6.1%
Foreign exchange effect on NWP change			(0.5)
NWP change excluding foreign exchange[1]			5.6%

1 Determined by assuming constant foreign exchange rates between periods.

Global Specialty's major product lines are as follows:

(1) Specialty Insurance: includes marine, energy, construction, aviation, property, casualty, excess casualty, directors and officers, errors and omissions, property, environmental impairment liability, commercial automobile, railroad, workers compensation, trade credit, excess and surplus property, crisis management, contingent lines and other;
(2) Reinsurance: includes worldwide multi-line marine, property and casualty reinsurance;
(3) Surety: includes contract and commercial surety bonds;
(4) Inland Marine: handset protection coverage for lost or damaged devices; and
(5) Other: internal reinsurance within Global Specialty.

Global Specialty NWP by line of business was as follows:

	Three Months Ended March 31,		
$ in Millions	**2014**	**2013**	**Change**
Specialty Insurance	$683	$594	15.0%
Reinsurance	455	468	(2.8)
Surety	181	184	(1.6)
Inland Marine	140	138	1.4
Other	26	16	62.5
Total NWP	$1,485	$1,400	6.1%

NWP for the three months ended March 31, 2014 was $1.485 billion, an increase of $85 million over the same period in 2013. The increase reflects growth in Specialty Insurance driven by Syndicate 4472, LMIE and LIU U.S. primarily due to new business, higher renewals and reinsurance program changes.

Results of Operations – Global Specialty

	Three Months Ended March 31,		
$ in Millions	**2014**	**2013**	**Change**
Revenues	$1,290	$1,217	6.0%
PTOI before catastrophes and net incurred losses attributable to prior years	$173	$175	(1.1%)
Catastrophes [1]	(23)	(15)	53.3
Net incurred losses attributable to prior years [2]	(9)	(30)	(70.0)
PTOI	$141	$130	8.5%

1 Catastrophes include all current accident year catastrophe losses for severe storms in the U.S., U.K. and Ireland floods, and Cyclone Oswald. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

2 Net of earned premium and reinstatement premium attributable to prior years of $9 million for the three months ended March 31, 2014 and $18 million for the same period in 2013.

PTOI for the three months ended March 31, 2014 was $141 million, an increase of $11 million over the same period in 2013. The increase reflects lower net incurred losses attributable to prior years, business growth and higher net investment income partially offset by higher commissions and catastrophe losses related to the U.K. floods and severe storms in the U.S.

Revenues for the three months ended March 31, 2014 were $1.290 billion, an increase of $73 million over the same period in 2013. The major components of revenues are net premium earned and net investment income.

Net premium earned for the three months ended March 31, 2014 was $1.205 billion, an increase of $85 million over the same period in 2013. The increase reflects the previously mentioned growth in NWP and NWP growth during the last nine months of 2013.

Net investment income for the three months ended March 31, 2014 was $83 million, an increase of $7 million over the same period in 2013. The increase reflects a higher invested asset base partially offset by lower yields.

Claims, benefits and expenses for the three months ended March 31, 2014 were $1.150 billion, an increase of $81 million over the same period in 2013. The increase was driven primarily by business growth and higher catastrophes partially offset by lower incurred losses attributable to prior years.

	Three Months Ended March 31,		
GLOBAL SPECIALTY	**2014**	**2013**	**Change (Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years			
Claims and claim adjustment expense ratio	58.3%	60.4%	(2.1)
Underwriting expense ratio	33.0	29.3	3.7
Dividend ratio	0.2	0.3	(0.1)
Subtotal	91.5	90.0	1.5
Catastrophes [1]	1.9	1.4	0.5
Net incurred losses attributable to prior years[2]	0.7	2.7	(2.0)
Total combined ratio	94.1%	94.1%	-

1 Catastrophes include all current accident year catastrophe losses for severe storms in the U.S., U.K. and Ireland floods, and Cyclone Oswald. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

2 Net of earned premium and reinstatement premium attributable to prior years.

The Global Specialty combined ratio before catastrophes and net incurred losses attributable to prior years for the three months ended March 31, 2014 was 91.5%, an increase of 1.5 points over the same period in 2013. The claims and claim adjustment expense and underwriting expense ratios reflect favorable current year losses offset by higher underwriting expenses in the inland marine line of business due to a change of terms and conditions on a program as well as other program changes. The underwriting expense ratio was further impacted by higher commissions due to a change in business mix within LSM.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three months ended March 31, 2014 was 94.1% which is flat from the same period in 2013. The change to the combined ratio discussed above as well as the unfavorable catastrophe losses incurred offset by the less unfavorable net incurred losses attributable to prior years primarily in LM Surety.

CORPORATE AND OTHER

Overview – Corporate and Other

Corporate and Other includes the following significant items:

- Certain internal discontinued operations composed of: asbestos, environmental, and toxic tort exposures, the run-off of certain Commercial Insurance business, the run-off of the California workers compensation business of Golden Eagle Insurance Corporation and certain distribution channels related to Prudential Property and Casualty Insurance Company, Prudential General Insurance Company and Prudential Commercial Insurance Company (together, "PruPac") and Liberty Re annuity business.

- Effective January 1, 2014, Corporate and Commercial Insurance novated their voluntary and involuntary reinsurance treaties that applied to certain pre-2012 workers compensation claims and entered into two new agreements including: (1) certain pre-2013 voluntary workers compensation claims and, (2) certain pre-2013 involuntary workers compensation claims.

- Interest expense on the Company's outstanding debt.

- Certain risks of its SBUs that the Company reinsures as part of its risk management program, and risks on Personal Insurance homeowners business covered by the externally ceded homeowners quota share reinsurance treaty.

- The Company reports its written premium on workers compensation contracts on the "booked as billed" method. Commercial Insurance reports workers compensation written premium on the "booked at inception" method. Corporate and Other results reflect the difference between these two methods.

- The Company discounts the long-term indemnity portion of its settled unpaid workers compensation claims at risk-free discount rates. Commercial Insurance reports its discount based on statutory discount rates. Corporate and Other results reflect the difference between the statutory and risk-free rate.

- Costs associated with certain long-term compensation plans and other corporate costs not fully allocated to the SBUs.

- For presentation in this MD&A, domestic property and casualty operations' investment income is allocated to the business units based on planned ordinary investment income returns by investment category. Investments are allocated to the business units in an amount equal to their respective liabilities net of insurance assets (reinsurance, premiums receivable, etc.) plus allocated statutory policyholders' surplus. The difference between allocated net investment income and actual net investment income is included in Corporate and Other.

- Income related to LP and LLC investments.

- Fee and other revenues include revenues from the Company's wholly owned subsidiary, Liberty Energy, and lease and other income on investment properties. Liberty Energy generates revenue from the production and sale of oil and gas.

- Certain retroactive reinsurance agreements, most of which were commuted during 2013.

Corporate and Other NWP by line of business was as follows:

	Three Months Ended March 31,		
$ in Millions	**2014**	**2013**	**Change**
Reinsurance, net	$81	$14	NM
Workers compensation[1]	30	19	57.9
Other	1	(1)	NM
Total NWP	$112	$32	NM

1 Booked as billed adjustment.
NM = Not Meaningful

NWP for the three months ended March 31, 2014 was $112 million, an increase of $80 million over the same period in 2013. The increase was primarily driven by a decrease in ceded premium related to a homeowners quota share treaty covering Personal Insurance homeowners business due to a change in terms.

Results of Operations – Corporate and Other

	Three Months Ended March 31,		
$ in Millions	**2014**	**2013**	**Change**
Revenues	$433	$105	NM
Pre-tax operating loss before catastrophes, net incurred losses attributable to prior years, Venezuela devaluation and foreign exchange, and LP and LLC income	(168)	(187)	(10.2%)
Catastrophes[1]	3	2	50.0%
Net incurred losses attributable to prior years:			
- Asbestos & environmental	(1)	(1)	-
- All other[2]	30	(14)	NM
Venezuela devaluation and foreign exchange	(2)	(3)	(33.3%)
Pre-tax operating loss before LP and LLC income	(138)	(203)	(32.0%)
LP and LLC income[3]	256	47	NM
Pre-tax operating income (loss)	$118	($156)	NM

1 Catastrophes include all current accident year catastrophe losses for severe storms in the U.S., U.K. and Ireland floods, and Cyclone Oswald. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

2 Net of earned premium attributable to prior years of $1 million and zero for the three months ended March 31, 2014 and 2013. Net of amortization of deferred gains on retroactive reinsurance of $1 million and $10 million for the three months ended March 31, 2014 and 2013.

3 LP and LLC income is included in net investment income in the accompanying Consolidated Statements of Income.
NM = Not Meaningful

Pre-tax operating income for the three months ended March 31, 2014 was $118 million versus ($156) million in the same period in 2013. The increase is driven by higher valuation changes in LP and LLC investments, reduced reinsurance costs due to a change in terms and more severe weather in 2014, favorable prior year loss development related to an internal reinsurance program, higher oil and gas revenues and lower employee pension expenses, partially offset by unfavorable annuity reserve development.

Revenues for the three months ended March 31, 2014 were $433 million, an increase of $328 million over the same period in 2013. The major components of revenues are net premium earned, net investment income, net realized gains, and fee and other revenues.

Net premium earned for the three months ended March 31, 2014 was $49 million, an increase of $70 million over the same period in 2013. The increase primarily reflects a reduction in ceded premium due to a change in terms on the homeowners quota share treaty covering Personal Insurance homeowners effective December 31, 2013.

Net investment income for the three months ended March 31, 2014 was $195 million, an increase of $176 million over the same period in 2013. The increase primarily reflects higher valuation changes in LP and LLC investments, partially offset by valuation decreases in other equity method investments.

Net realized gains for the three months ended March 31, 2014 were $49 million, an increase of $35 million over the same period in 2013. The increase is primarily driven by gains on sales of equity investments and a sale in the energy sector.

Fee and other revenues for the three months ended March 31, 2014 were $140 million, an increase of $47 million over the same period in 2013. The increase primarily reflects higher oil and gas revenues.

Claims, benefits and expenses for the three months ended March 31, 2014 were $266 million, an increase of $19 million over the same period in 2013. The increase is driven by a lower ceding percentage on the homeowners quota share treaty due to a change in terms and unfavorable annuity reserve development, partially offset by favorable prior year loss development related to an internal reinsurance program and lower employee pension expenses.

INVESTMENTS

General

The Company's investment strategy seeks long-term returns through disciplined security selection, portfolio diversity and an integrated approach to risk management. The Company selects and monitors investments to balance the goals of safety, stability, liquidity, growth and after-tax total return with its need to comply with regulatory investment requirements. A relatively safe and stable income stream is achieved by maintaining a broadly based portfolio of investment grade bonds. These holdings are supplemented by investments in additional asset types with the objective of further enhancing the portfolio's diversification and expected returns. These additional asset types include commercial mortgages and other real estate financing investments, non-investment grade bonds, including syndicated bank loans, common and preferred stock, private equity and direct investments in natural resource ventures. Risk management is accomplished through asset liability management (including both interest rate risk and foreign currency risk), diversification, credit limits and a careful analytical review of each investment decision.

The Company's investment policy and strategy are reviewed and approved by the Investment Committee of its Board of Directors, which meets on a regular basis to review and consider investment activities, tactics and new investment classes. In addition, the Company predominantly uses a subsidiary investment adviser registered with the Securities and Exchange Commission for managing and administering the investment portfolios of its domestic and foreign insurance operations.

Invested Assets (including cash and cash equivalents)

The following table summarizes the Company's invested assets by asset category as of March 31, 2014 and December 31, 2013:

$ in Millions	**As of March 31, 2014**		**As of December 31, 2013**	
Invested Assets by Type	**Carrying Value**	**% of Total**	**Carrying Value**	**% of Total**
Fixed maturities, available for sale, at fair value	$64,224	80.3%	$64,256	81.4%
Equity securities, available for sale, at fair value	3,004	3.8	2,952	3.7
LPs and LLCs	4,438	5.5	4,091	5.2
Commercial mortgage loans	1,617	2.0	1,583	2.0
Short-term investments	406	0.5	393	0.5
Other investments	820	1.0	829	1.1
Cash and cash equivalents	5,502	6.9	4,778	6.1
Total invested assets	$80,011	100.0%	$78,882	100.0%

Total invested assets as of March 31, 2014 were $80.011 billion, an increase of $1.129 billion or 1.4% over December 31, 2013. The increase reflects the strong private equity market performance, an increase in fixed maturity unrealized gains related to lower treasury yields and spread tightening and an increase in cash from operations not reinvested, partially offset by the impact of the change in the Venezuela currency exchange rate used for remeasurement purposes.

Fixed maturities as of March 31, 2014 were $64.224 billion, a decrease of $32 million from December 31, 2013. The decrease reflects the change in the Venezuela currency exchange rate used for remeasurement purposes, partially offset by an increase in unrealized gains related to lower treasury yields and spread tightening. As of March 31, 2014, included in fixed maturities are commitments to purchase various residential mortgage-backed securities at a cost and fair value of $30 million, and various corporate and municipal securities at a cost of $103 million and fair value of $104 million.

Equity securities available for sale as of March 31, 2014 were $3.004 billion ($2.654 billion common stock and $350 million preferred stock) versus $2.952 billion as of December 31, 2013 ($2.625 billion common stock and $327 million preferred stock), an increase of $52 million or 1.8% over December 31, 2013. Of the $2.654 billion of common stock at March 31, 2014, $413 million relates to securities associated with non-guaranteed unit linked products where the policyholder bears the investment risk.

Investments in LPs and LLCs as of March 31, 2014 were $4.438 billion, an increase of $347 million or 8.5% over December 31, 2013. These investments consist of traditional private equity partnerships of $2.272 billion, natural resources partnerships of $693 million (related to energy investments), real estate partnerships of $618 million and other partnerships of $855 million. The increase reflects net improved valuations and new investments offset by distributions received. The Company's investments in LPs and LLCs are long-term in nature. The Company believes these investments offer the potential for superior long-term returns and are appropriate in the overall context of a diversified portfolio.

As of March 31, 2014, the Company had unfunded commitments in traditional private equity partnerships, real estate, natural resources, and other of $1.291 billion, $514 million, $2.750 billion ($2.532 billion in energy investments), and $760 million, respectively.

Commercial mortgage loans as of March 31, 2014 were $1.617 billion (net of $15 million of loan loss reserves or 0.9% of the outstanding loan portfolio), an increase of $34 million or 2.1% over December 31, 2013. The increase primarily reflects $67 million in funding, partially offset by $33 million in principal reductions. The entire commercial loan portfolio is U.S. based. As of March 31, 2014, the average total loan size was $1 million and the average loan participation size was less than $1 million. The number of loans in the portfolio increased from 4,211 at December 31, 2013 to 4,273 at March 31, 2014. Approximately 92% of the loans are full or partial recourse to borrowers.

Cash and cash equivalents as of March 31, 2014 were $5.502 billion, an increase of $724 million or 15.2% over December 31, 2013. The increase was primarily related to cash flows from operating and investing activities and an increase in securities lending cash collateral, partially offset by net cash used in financing activities, and the impact of the change in the Venezuela currency exchange rate used for remeasurement purposes.

Regarding fair value measurements, as of March 31, 2014, excluding separate accounts and other assets, the Company reflected $4.743 billion (7.0%) as level 1 (quoted prices in active markets) primarily consisting of U.S. Treasuries and common equity securities. The majority of the Company's invested assets are reported as level 2 (quoted prices from other observable inputs). As of March 31, 2014 the Company reported $61.748 billion (90.6%) as level 2, consisting primarily of various fixed maturity securities. Finally, the Company reported $1.625 billion (2.4%) as level 3 (unobservable inputs), primarily consisting of international and privately held securities for which a market price is not readily observable.

As of March 31, 2014, no single issuer, excluding U.S. Treasuries, agency securities and mortgage-backed securities, accounted for more than 1.1% of invested assets.

The following tables summarize the Company's available for sale portfolio by security type as of March 31, 2014 and December 31, 2013:

$ in Millions **March 31, 2014**	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. government and agency securities	$2,795	$171	($22)	$2,944
Residential MBS [1]	8,153	283	(77)	8,359
Commercial MBS	1,602	25	(23)	1,604
Other MBS and ABS [2]	2,379	66	(39)	2,406
U.S. state and municipal	13,886	800	(139)	14,547
Corporate and other	26,742	1,487	(190)	28,039
Foreign government securities	6,162	211	(48)	6,325
Total fixed maturities	61,719	3,043	(538)	64,224
Common stock	2,161	529	(36)	2,654
Preferred stock	386	20	(56)	350
Total equity securities	2,547	549	(92)	3,004
Total securities available for sale	$64,266	$3,592	($630)	$67,228

1 Mortgage-backed securities ("MBS")
2 Asset-backed securities ("ABS")

$ in Millions **December 31, 2013**	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. government and agency securities	$2,948	$161	($28)	$3,081
Residential MBS	8,404	272	(102)	8,574
Commercial MBS	1,729	22	(34)	1,717
Other MBS and ABS	2,291	63	(48)	2,306
U.S. state and municipal	13,964	680	(283)	14,361
Corporate and other	26,475	1,263	(354)	27,384
Foreign government securities	6,635	270	(72)	6,833
Total fixed maturities	62,446	2,731	(921)	64,256
Common stock	2,122	524	(21)	2,625
Preferred stock	386	18	(77)	327
Total equity securities	2,508	542	(98)	2,952
Total securities available for sale	$64,954	$3,273	($1,019)	$67,208

The following table summarizes the Company's mortgage and asset-backed fixed maturity portfolio by credit quality as of March 31, 2014:

$ in Millions	**As of March 31, 2014**							
Mortgage & Asset-Backed Fixed Maturities by Credit Quality[1]	**AAA**	**AA**	**A**	**BBB**	**BB**	**B or Lower**	**Total**	**% of Total**
SBA loans	$1,919	$-	$-	$-	$-	$-	$1,919	15.5%
GNMA residential mortgage	3,901	5	-	-	-	-	3,906	31.6
FNMA residential mortgage	2,519	-	-	-	-	-	2,519	20.4
FHLMC residential mortgage	1,548	-	-	-	-	-	1,548	12.5
Prime residential mortgage	15	1	3	10	6	159	194	1.6
Alt-A residential mortgage	-	12	-	2	10	120	144	1.1
Sub-prime residential mortgage	22	-	2	-	5	19	48	0.4
Commercial MBS	1,508	37	1	58	-	-	1,604	13.0
Non-mortgage ABS	315	6	51	102	4	9	487	3.9
Total	$11,747	$61	$57	$172	$25	$307	$12,369	100.0%
% of Total	95.0%	0.5%	0.4%	1.4%	0.2%	2.5%	100.0%	

[1]For purposes of this disclosure, credit quality is primarily based upon average credit ratings.

Approximately 80% of the Company's mortgage and asset-backed fixed maturity portfolio is explicitly backed by the U.S. government (SBA and GNMA) or by government-sponsored entities (FNMA and FHLMC). Approximately 95% of the holdings are rated AAA. The commercial mortgage-backed securities portfolio is well diversified and of high quality with approximately 96% rated AA or above.

The following table summarizes the Company's allocation of fixed maturities by credit quality as of March 31, 2014 and December 31, 2013:

$ in Millions	**As of March 31, 2014**		**As of December 31, 2013**	
Fixed Maturities by Credit Quality[1]	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
AAA	$20,775	32.4%	$21,122	32.9%
AA+, AA, AA-	11,564	18.0	11,337	17.6
A+, A, A-	14,929	23.2	14,611	22.7
BBB+, BBB, BBB-	12,238	19.1	12,122	18.9
Total investment grade	59,506	92.7	59,192	92.1
BB+, BB, BB-	1,477	2.3	1,566	2.4
B+, B, B-	2,559	4.0	2,809	4.4
CCC or lower	682	1.0	689	1.1
Total below-investment grade	4,718	7.3	5,064	7.9
Total fixed maturities	$64,224	100.0%	$64,256	100.0%

[1]For purposes of this disclosure, credit quality is primarily based upon average credit ratings.

The Company's allocation to investment grade (fixed maturities with an average credit rating of BBB- or higher) securities was approximately 93% at March 31, 2014, slightly higher than December 31, 2013. The Company's allocation to below-investment grade (fixed maturities with an average credit rating below BBB-) securities was approximately 7% at March 31, 2014, slightly lower than December 31, 2013. This decline was primarily as a result of the change in the Venezuela currency exchange rate used for remeasurement purposes in January 2014. Overall, the average credit quality rating stands at A+ as of March 31, 2014. The Company's holdings of below investment grade securities primarily consist of an actively managed diversified portfolio of high yield securities and syndicated bank loans within the domestic insurance portfolios and investments in emerging market sovereign and corporate debt primarily in support of the Company's international insurance operations.

The following table summarizes available for sale fixed maturity securities by contractual maturity at March 31, 2014 and December 31, 2013. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid with or without call or prepayment penalties. Due to the potential for prepayment on MBS and ABS, they are not categorized by contractual maturity.

$ in Millions	**As of March 31, 2014**		**As of December 31, 2013**	
Fixed Maturities by Maturity Date	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
One year or less	$3,549	5.5%	$3,521	5.5%
Over one year through five years	18,938	29.5	19,107	29.7
Over five years through ten years	17,260	26.9	17,331	27.0
Over ten years	12,108	18.8	11,700	18.2
MBS and ABS	12,369	19.3	12,597	19.6
Total fixed maturities	$64,224	100.0%	$64,256	100.0%

During 2014, after taking into consideration changes in investment opportunities and its view of the current and prospective business and economic environment, the Company has made only minor adjustments to the average duration of its investment portfolio.

Net Investment Income

The following table summarizes the Company's net investment income for the three months ended March 31, 2014 and 2013:

$ in Millions	**Three Months Ended March 31,**	
Net Investment Income	**2014**	**2013**
Taxable interest income	$559	$576
Tax-exempt interest income	108	114
Dividends	14	15
LP and LLC income	265	48
Commercial mortgage loans	22	21
Other investment (loss) income	(27)	2
Gross investment income	941	776
Investment expenses	(36)	(40)
Net investment income[1]	$905	$736

[1]The above table contains net investment income attributable to discontinued operations of $14 million and $15 million for the three months ended March 31, 2014 and 2013, respectively.

Net investment income for the three months ended March 31, 2014 was $905 million, an increase of $169 million over the same period in 2013. The increase is largely a result of higher valuation changes in LP and LLC investments, which benefited from an increase in IPO activity as well as strong financial performance in the underlying investments. Those increases are partially offset by a reduction in taxable interest income due to lower investment yields as well as other investment losses related to valuation decreases in other equity method investments.

Net Realized Gains (Losses)

The following tables summarize the Company's net realized gains (losses) for the three months ended March 31, 2014 and 2013:

$ in Millions **Net Realized Gains (Losses)**	**Sales & Dispositions**	**Impairments**	**Change in Derivatives Value**	**Total**
Three Months Ended March 31, 2014:				
Fixed maturities	($4)	($255)	$-	($259)
Common and preferred stock	48	(1)	-	47
Other	12	(5)	-	7
Total	$56	($261)	$-	($205)
Three Months Ended March 31, 2013:				
Fixed maturities	$13	($231)	$-	($218)
Common and preferred stock	35	(2)	-	33
Other	(2)	(1)	(9)	(12)
Total	$46	($234)	($9)	($197)

$ in Millions	**Three Months Ended March 31,**	
Components of Net Realized Losses	**2014**	**2013**
Fixed maturities:		
Gross realized gains	$30	$52
Gross realized losses	(289)	(270)
Equities:		
Gross realized gains	52	42
Gross realized losses	(5)	(9)
Other:		
Gross realized gains	40	13
Gross realized losses	(33)	(25)
Total net realized losses	($205)	($197)

Net realized losses for the three months ended March 31, 2014 were $205 million, an increase of $8 million over the same period in 2013. The increase in net losses primarily relates to impairment losses recognized as a result of the change in the Venezuela currency exchange rate used for remeasurement purposes in January 2014 and the Venezuela government's devaluation of its currency in February 2013.

The following table summarizes the Company's gross unrealized losses and fair value of fixed income and equity securities by the length of time that individual securities have been in a continuous unrealized loss position as of March 31, 2014 and that are not deemed to be other-than-temporarily impaired:

$ in Millions	**Less Than 12 Months**		**12 Months or Longer**	
Unrealized Losses & Fair Value by Security Type	**Unrealized Losses**	**Fair Value of Investments with Unrealized Losses**	**Unrealized Losses**	**Fair Value of Investments with Unrealized Losses**
U.S. Government and agency securities	($21)	$1,046	($1)	$5
Residential MBS	(69)	2,565	(8)	188
Commercial MBS	(14)	534	(9)	176
Other MBS and ABS	(35)	968	(4)	52
U.S. state and municipal	(93)	2,017	(46)	398
Corporate and other	(139)	4,896	(51)	705
Foreign government securities	(26)	1,409	(22)	343
Total fixed maturities	(397)	13,435	(141)	1,867
Common stock	(26)	266	(10)	60
Preferred stock	-	9	(56)	250
Total equity securities	(26)	275	(66)	310
Total securities available for sale	(423)	13,710	(207)	2,177

Unrealized losses decreased from $1.019 billion as of December 31, 2013 to $630 million as of March 31, 2014 primarily related to a decrease in treasury yields and spread tightening. Unrealized losses less than 12 months decreased from $755 million at December 31, 2013 to $423 million as of March 31, 2014. Unrealized losses 12 months or longer decreased from $264 million as of December 31, 2013 to $207 million as of March 31, 2014. Of the $10 million unrealized losses 12 months or longer on common stock, $4 million relates to securities associated with non-guaranteed unit linked products where the policyholder bears the investment risk. As of March 31, 2014, there were 657 securities that were in an unrealized loss position for 12 months or longer. The Company monitors the difference between the amortized cost and estimated fair value of debt securities to ascertain whether declines in value are temporary in nature. The Company currently does not have the intent to sell these securities and has determined it is not more likely than not that it would be required to sell these fixed maturity securities before they recover their fair value.

If the Company believes a decline in the value (including foreign exchange rate changes) of a particular investment is temporary, the decline is recorded as an unrealized loss in policyholders' equity. If the decline is believed to be other-than-temporary, and the Company believes that it will not be able to collect all cash flows due on its fixed maturity securities, then the carrying value of the investment is written down to the expected cash flow amount and a realized loss is recorded as a credit impairment. A non-credit impairment loss is recognized in other comprehensive income, net of applicable taxes, as the difference between expected cash flows and fair value. For the three months ended March 31, 2014, the Company recorded $255 million of fixed maturity impairment losses. Fixed maturity impairment losses for the three months ended are primarily driven by the Company's decision to treat the Venezuela devaluation as an other-than-temporary impairment. The Company has concluded that the remaining gross unrealized losses of fixed maturity securities as of March 31, 2014 are temporary.

For equity securities, if the decline is believed to be other-than-temporary, the carrying value of the investment is written down to fair value and a realized loss is recorded. The gross unrealized losses recorded on equity securities at March 31, 2014 resulted primarily from decreases in quoted fair values from the dates that certain investment securities were acquired as opposed to fundamental changes in the issuer’s financial performance and near-term financial prospects. For the three months ended March 31, 2014, the Company recorded $1 million in impairment losses on equity securities. The Company has concluded that the gross unrealized losses of equity securities as of March 31, 2014 are temporary.

LIQUIDITY AND CAPITAL RESOURCES

The liquidity requirements of the insurance subsidiaries are met primarily by funds generated from operations, asset maturities and income received on investments. Cash provided from these sources is used primarily for claims, claim adjustment expenses and operating expenses (underwriting and corporate benefit costs). There are certain cash outflows such as catastrophes and continued settlements of asbestos reserves that are unpredictable in nature and could create increased liquidity needs. The Company believes that the insurance subsidiaries' future business liquidity needs will be met from all the above sources.

Net cash flows are generally invested in marketable securities while keeping a certain amount in cash and short-term investments to meet unpredictable cash obligations. The Company monitors the duration of these investments, and purchases and sales are executed with the objective of having adequate cash available to satisfy its maturing liabilities. As the Company's investment strategy focuses on overall asset and liability durations, and not specific cash flows, asset sales may be required to satisfy obligations or rebalance asset portfolios. The Company's invested assets as of March 31, 2014 (including cash and cash equivalents) totaled $80.011 billion.

Debt outstanding as of March 31, 2014 and December 31, 2013 was as follows:

Short-term debt and current maturities of long-term debt:

$ in Millions	**As of March 31, 2014**	**As of December 31, 2013**
Current maturities of long-term debt[1]	$151	$343
Total short-term debt and current maturities of long-term debt	$151	$343

[1] 2014 includes $104 million of 7.30% Notes due 6/15/2014 and $47 million of 5.588% mortgage loan due 1/1/2015. 2013 includes $239 million of 5.75% Notes due 3/15/2014 and $104 million of 7.30% Notes due 6/15/2014.

Long-term debt:

$ in Millions	As of March 31, 2014	As of December 31, 2013
5.588% Mortgage loan, due 2015	$ -	$47
6.70% Notes, due 2016	249	249
7.00% Junior Subordinated notes, due 2067[1]	300	300
5.00% Notes, due 2021	600	600
4.95% Notes, due 2022	750	750
4.25% Notes, due 2023	1,000	1,000
8.50% Surplus notes, due 2025	140	140
7.875% Surplus notes, due 2026	227	227
7.625% Notes, due 2028	3	3
3.91% - 4.25% Federal Home Loan Bank Borrowings, due 2032	300	300
7.00% Notes, due 2034	231	231
6.50% Notes, due 2035	471	471
7.50% Notes, due 2036	19	19
7.80% Junior Subordinated notes, due 2087[2]	700	700
10.75% Junior Subordinated notes, due 2088[3]	255	255
6.50% Notes, due 2042	750	750
7.697% Surplus notes, due 2097	260	260
Subtotal	6,255	6,302
Unamortized discount	(15)	(17)
Total long-term	6,240	$6,285

[1] The par value call date and final fixed rate interest payment date is March 15, 2017, subject to certain requirements.
[2] The par value call date and final fixed rate interest payment date is March 15, 2037, subject to certain requirements.
[3] The par value call date and final fixed rate interest payment date is June 15, 2038, subject to certain requirements.

As part of its overall capital strategy, the Company previously announced that it may issue, repurchase or exchange debt depending on market conditions. Debt repurchases may be done through open market or other appropriate transactions. The Company continues to evaluate market conditions and may periodically effect transactions in its debt, subject to applicable limitations.

Debt Transactions and In-force Credit Facilities

There were no repurchases during the three month period ending March 31, 2014 compared to $38 million in 2013 of the 10.75% Junior Subordinated notes due 2088. The 2013 pre-tax loss of $21 million was recorded on these transactions and is included in loss on extinguishment of debt in the accompanying Consolidated Statements of Income.

On December 9, 2013, the Company's five-year $750 million unsecured revolving credit facility was amended and restated to extend to December 10, 2018. This facility backs the Company's $750 million commercial paper program that is guaranteed by Liberty Mutual Insurance Company ("LMIC"). As of March 31, 2014, there was no commercial paper or borrowings outstanding on the facility.

On June 18, 2013 and November 5, 2013, Liberty Mutual Group Inc. ("LMGI") issued $600 million and $400 million of Senior Notes due 2023 (the "2023 Notes"), respectively. Interest is payable semi-annually at a fixed rate of 4.25%. The 2023 Notes mature on June 15, 2023.

On December 20, 2012, LMIC entered into a three-year $1 billion repurchase agreement which terminates on December 20, 2015. To date, no funds have been borrowed under the facility. In connection with the new facility, the Company terminated its $1 billion three-year repurchase agreements dated March 26, 2010.

LMIC, Peerless Insurance Company ("PIC"), Liberty Life Assurance Company of Boston ("LLAC"), Liberty Mutual Fire Insurance Company ("LMFIC") and Employers Insurance Company of Wausau ("EICOW") are members of the Federal Home Loan Bank. On March 21, 2012, LMFIC borrowed $150 million at a rate of 3.91% with a maturity date of March 22, 2032. On March 23, 2012 and April 2, 2012, LMIC borrowed $127 million at a rate of 4.24% with a maturity date of March 23, 2032 and $23 million at a rate of 4.25% with a maturity date of April 2, 2032, respectively. As of March 31, 2014, all of the outstanding Federal Home Loan Bank borrowings are fully collateralized.

On January 20, 2012, LMGI entered into two interest rate swap transactions having a notional amount of $300 million with respect to LMGI's $300 million 7.00% Junior Subordinated Notes due 2067. Pursuant to the terms of the swap agreements, commencing on March 15, 2017 and effective through March 15, 2037, LMGI has agreed with the counterparties to pay a fixed rate of interest on the notional amount and the counterparties have agreed to pay a floating rate of interest on the notional amount.

Interest Expense

Consolidated interest expense for the three months ended March 31, 2014 was $104 million, an increase of $1 million for the same period in 2013. Interest expense reflects the new debt issuances in 2013, offset by debt repurchases and maturities. As previously discussed, the Company continues to evaluate market conditions and may periodically effect transactions in its debt, subject to applicable limitations. Debt repurchases may be done through open market or other appropriate transactions.

Holding Company Liquidity and Capital Resources

The Company conducts substantially all of its operations through its wholly owned insurance and service company subsidiaries, and therefore is primarily dependent on dividends, distributions, loans or other payments of funds from these entities to meet its current and future obligations. However, the subsidiaries are separate and distinct legal entities and have no obligation to make funds available to the Company, whether in the form of loans, dividends or other distributions. As of March 31, 2014, the Company, through its downstream subsidiary LMGI, had $5.564 billion of debt outstanding, excluding discount. This amount includes a short-term loan of $156 million from LMIC with a maturity date of June 17, 2014.

The insurance subsidiaries' ability to pay dividends on preferred or common stock is restricted under applicable insurance laws and regulations and may be paid only from unassigned surplus. Under the insurance laws of the domiciliary states of the insurance subsidiaries, an insurer may make an ordinary dividend payment if its surplus as regards policyholders, following such dividend, is reasonable in relation to its outstanding liabilities, is adequate to meet its financial needs, and does not exceed the insurer's unassigned surplus. However, no insurer may pay an extraordinary dividend without the approval or non-disapproval of the domiciliary insurance regulatory authority. Under the insurance laws of Massachusetts, the domiciliary state of LMIC, an extraordinary dividend is defined as a dividend whose fair market value, together with other dividends made within the preceding 12 months, exceeds the greater of 10% of the insurer's surplus as regards policyholders as of the preceding December 31, or the insurer's net income for the 12-month period ending on the preceding December 31. Under the insurance laws of Wisconsin, the domiciliary state of LMFIC and EICOW, an extraordinary dividend is defined as a dividend whose fair market value, together with other dividends paid within the preceding 12 months, exceeds the lesser of (a) 10% of the insurer's surplus as regards policyholders as of the preceding December 31, or (b) the greater of (1) the insurer's net income for the preceding calendar year, minus realized capital gains for that calendar year, or (2) the aggregate of the insurer's net income for the three preceding calendar years minus realized capital gains for those calendar years and minus dividends paid within the first two of the preceding three calendar years. Changes in the extraordinary dividend regulation of the domiciliary states of LMIC, LMFIC and EICOW could negatively affect LMGI's ability to pay principal and interest on its debt, as could a redomestication, merger or consolidation of LMIC, LMFIC or EICOW to a different domiciliary state.

The authorized control level risk-based capital (as of December 31, 2013) and 2014 available dividend capacity prior to needing regulatory approval for LMIC, LMFIC and EICOW were as follows:

$ in Millions	**RBC Ratio[1]**		**Dividend Capacity[2]**	**Dividends Paid[3]**
RBC Ratios and Dividend Capacity	**2013**	**2012**	**2014**	**2014**
LMIC	474%	457%	$1,465	$16
LMFIC	453%	343%	$79	$15
EICOW	427%	567%	$43	-

[1] Authorized control level risk-based capital as defined by the NAIC.
[2] Represents the estimated maximum allowable dividend without prior regulatory approval in the state of domicile.
[3] Dividends paid represent amounts paid during the three months ended March 31, 2014. Available dividend capacity as of March 31, 2014 is calculated as 2014 dividend capacity less dividends paid for the preceding 12 months. Dividends paid April 1, 2013 through March 31, 2014 for LMIC, LMFIC and EICOW were $200 million, $15 million and zero, respectively.

LMGI also has access to the following sources of funding:

- A management services agreement with LMIC pursuant to which LMGI is entitled to collect certain costs plus a management fee for services rendered by LMGI employees.
- Investment management agreements with affiliated entities pursuant to which an LMGI subsidiary registered investment advisor is entitled to recover annual expenses for investment management services performed by its employees.
- Liberty Corporate Services LLC ("LCS"), which through its subsidiaries collects fees and other revenues, primarily for claims administration and agency services rendered for affiliated and non-affiliated entities. For the three months ended March 31, 2014, LCS recorded $101 million in pre-tax income.
- Approximately $80 million of annual dividends related to non-redeemable perpetual preferred stock issuances by LMIC and LMFIC.

Statutory Surplus

Statutory surplus as regards policyholders for the combined operations of LMIC and its U.S affiliates, including international branches, was $17.284 billion and $17.508 billion at March 31, 2014 and December 31, 2013, respectively. The decrease in surplus primarily reflects a reduction to other changes in surplus of $210 million and affiliated unrealized losses of $129 million, partially offset by unaffiliated unrealized gains of $94 million and net income of $21 million (the sum of earnings from the Company's 58 domestic property-casualty insurance companies and dividends from subsidiaries). Other changes in surplus is primarily driven by a decrease to net deferred tax assets, goodwill amortization expense, and dividends to stockholders, partially offset by a decrease in non-admitted goodwill.

CRITICAL ACCOUNTING POLICIES

Critical Accounting Estimates

The preparation of financial statements in conformity with 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 financial statements, and the reported amounts of revenues and expenses during the reporting period. The Company's principal estimates include (1) unpaid claims and claim adjustment expense reserves, including asbestos and environmental liability reserves and loss sensitive premium attributable to prior years, (2) reinsurance recoverables and associated uncollectible allowance, (3) fair value determination and other-than-temporary impairments of the investment portfolio, (4) recoverability of deferred acquisition costs, (5) valuation of goodwill and intangible assets, (6) deferred income tax valuation allowance, and (7) pension and postretirement benefit obligations.

While the amounts included in the accompanying consolidated financial statements reflect management's best estimates and assumptions, these amounts ultimately could vary.

Adoption of Accounting Standards

The Company has not adopted any accounting standards through the first quarter of 2014.

Accounting Standards Not Yet Adopted

There are no accounting standards not yet adopted by the Company that are expected to have a material impact on its financial position or results of operations.

Unpaid Claims and Claim Adjustment Expenses

Reserves for property-casualty unpaid claims and claim adjustment expenses were $52.606 billion and $52.750 billion as of March 31, 2014 and December 31, 2013, respectively.

Property-casualty insurance unpaid claims and claim adjustment expenses represent the Company's best estimate of amounts necessary to settle all outstanding claims, including claims that are incurred but not reported as of the reporting date. The Company's reserve projections are based primarily on detailed analysis of the facts in each case, experience with similar cases and various historical development patterns. Consideration is given to such historical patterns as field reserving trends and claims settlement practices, loss payments, pending levels of unpaid claims and product mix, as well as court decisions, economic conditions and public attitudes. All of these factors can affect the estimation of reserves.

Establishing loss reserves, including loss reserves for catastrophic events that have occurred, is an estimation process. Many factors can ultimately affect the final settlement of a claim and, therefore, the necessary reserve. Changes in the law, results of litigation, medical costs, the costs of repair materials, and labor rates can all affect ultimate claim costs. In addition, time can be a critical part of reserving determinations since the longer the span between the incidence of a loss and the payment or settlement of the claim, the more variable the ultimate settlement can be. Accordingly, "short-tail" claims, such as property damage claims, tend to be easier to estimate than "long-tail" claims, such as workers compensation or general liability claims.

As information develops that varies from past experience, provides additional data, or in some cases, augments data that previously was not considered sufficient for use in determining reserves, changes in the Company's estimate of ultimate liabilities may be required. The effects of these changes are reflected in current operating results.

Asbestos and Environmental

The Company's asbestos and environmental reserves for unpaid claims and claim adjustment expenses, net of reinsurance decreased $26 million from $1.329 billion as of December 31, 2013 to $1.303 billion as of March 31, 2014 due to payments.

In the third quarter of 2013, the Company completed asbestos ground-up and aggregate environmental reserve studies. These studies were completed by a multi-disciplinary team of internal claims, legal, reinsurance and actuarial personnel, and included all major business segments of the Company's direct, assumed, and ceded asbestos and environmental unpaid claim liabilities. As part of the internal review, policyholders with the largest direct asbestos unpaid claim liabilities were individually evaluated using the Company's proprietary stochastic ground-up model, which is consistent with published actuarial methods of asbestos reserving. Among the factors reviewed in depth by the team of specialists were the type of business, level of exposure, coverage limits, geographic distribution of products, injury type, jurisdiction and legal defenses. Reinsurance recoveries for these policyholders were then separately evaluated by the Company's reinsurance and actuarial personnel. Asbestos and environmental unpaid claim liabilities for all other policyholders were evaluated using aggregate methods that utilized information and experience specific to these policyholders. The studies resulted in an increase to reserves of $278 million including: a $115 million final contingent payment triggered on a large settlement; $101 million of other asbestos reserves, primarily associated with increased defense costs; and $62 million of pollution reserves.

All asbestos and environmental claims against policies issued prior to 1986 by EICOW and its affiliates are 100% ceded to Nationwide Indemnity Company and guaranteed by Nationwide Mutual Insurance Company. In addition, the Company acquired PruPac in 2003 and any increase in asbestos and environmental reserves is reinsured by Vantage Casualty Insurance Company and guaranteed by Prudential Financial, Inc.

The estimation of asbestos claims and associated liabilities and the analysis of environmental claims considered prevailing applicable law and certain inconsistencies of court decisions as to coverage, plaintiffs' expanded theories of liability, and the risks inherent in major litigation and other uncertainties; the Company believes that in future periods it is possible that the outcome of the continued uncertainties regarding asbestos and environmental related claims could result in a liability that differs from current reserves by an amount that could be material to the Company's future operating results and financial condition.

Reinsurance Recoverables

The Company reported reinsurance recoverables of $11.787 billion and $11.786 billion at March 31, 2014 and December 31, 2013, respectively, net of allowance for doubtful accounts of $162 million and $163 million, respectively. Included in these balances are $629 million and $607 million of paid recoverables and $11.320 billion and $11.342 billion of unpaid recoverables, respectively.

As part of its reinsurance security oversight, the Company has established a Credit Risk Committee (the "Committee") that meets quarterly to monitor and review the credit quality of the existing reinsurance portfolio, discuss emerging trends in the reinsurance marketplace, and ensure that the current portfolio of reinsurance is in compliance with the Committee's security standards. The Committee is directly responsible for establishing the rating, collateral, and diversification requirements governing the Company's purchase and use of reinsurance.

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured business. 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 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 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. Changes in these estimates could result in additional charges to the Consolidated Statements of Income.

The Company has an aggregate stop loss program covering substantially all of Commercial Insurance's voluntary workers compensation business from the fourth quarter 2000 through the fourth quarter 2002 accident year periods. A significant portion of the consideration was retained on a "funds held" basis and interest is credited on the balance at an average rate of 8.5% annually. Under the contact, losses in excess of a specified loss ratio are reinsured up to a maximum loss ratio and were accounted for as prospective reinsurance at inception. However, due to a material contract change at the January 1, 2002 renewal, any premium and loss activity subsequent to December 31, 2001 is accounted for as retroactive reinsurance for coverage provided from the fourth quarter 2000 through the fourth quarter 2001 covered accident year periods.

During 2013, the Company commuted four workers compensation excess of loss retroactive reinsurance agreements. The commutations, which represented the complete and final settlement and discharge of all the present and future obligations between the parties arising out of the agreements, resulted in a gain to the Company of $227 million, net of tax.

The above aggregate stop loss program and the four commuted reinsurance agreements resulted in deferred gains that are amortized into income using the effective interest method over the estimated settlement period. As of March 31, 2014, and December 31, 2013, deferred gains were $9 million and $8 million, respectively, and are included in other liabilities within the accompanying Consolidated Balance Sheets. Interested credited to the funds held balances for the three months ended March 31, 2014 and 2013, was $1 million and $21 million, respectively. Deferred gain amortization for the three months ended March 31, 2014 and 2013 was $1 million and $10 million, respectively. Reinsurance recoverables related to these transactions were $73 million and $72 million as of March 31, 2014, and December 31, 2013, respectively.

On March 6, 2012, the Company entered into two multi-year property catastrophe reinsurance agreements with Mystic Re III Ltd. ("Mystic III"), a Cayman Islands domiciled reinsurer, to provide a total of $275 million of reinsurance coverage for the Company and its affiliates for a U.S. hurricane or earthquake event. The reinsurance agreements are collateralized. Such collateral is provided by Mystic III using proceeds from the issuance of certain catastrophe bonds. The reinsurance agreements provide coverage based on actual reported losses by the Company and its affiliates. The Company has not recorded any recoveries under this program. Mystic III does not have any other reinsurance in force.

Impairment Losses on Investments

If the Company believes a decline in the value (including foreign exchange rate changes) of a particular investment is temporary, the decline is recorded as an unrealized loss in policyholders' equity. If the decline is believed to be "other-than-temporary," and the Company believes that it will not be able to collect all cash flows due on its fixed maturity securities, then the carrying value of the investment is written down to the expected cash flow amount and a realized loss is recorded as a credit impairment. A non-credit impairment loss is recognized in other comprehensive income, net of applicable taxes as the difference between expected cash flow and fair value.

The Company reviews fixed maturity, public equity securities and private equity and private equity co-investment securities for impairment on a quarterly basis. Securities are reviewed for both quantitative and qualitative considerations including, but not limited to: (a) the extent of the decline in fair value below book value, (b) the duration of the decline, (c) significant adverse changes in the financial condition or near term prospects of the investment or issuer, (d) significant change in the business climate or credit ratings of the issuer, (e) general market conditions and volatility, (f) industry factors, and (g) the past impairment of the security holding or the issuer. For fixed maturity securities 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 impairments into credit loss and non-credit loss components. The determination of the credit loss component of the impairment charge is based on the Company's best estimate of the present value of the cash flows expected to be collected from the fixed maturity security compared to its amortized cost and is reported as part of net realized gains. The non-credit component, the residual difference between the credit impairment component and the fair value, is recognized in other comprehensive income. The factors considered in making an evaluation for credit versus non-credit other-than-temporary impairment include the following: (a) failure of the issuer of the security to make scheduled interest or principal payments (including the payment structure of the fixed maturity security and the likelihood the issuer will be able to make payments that increase in the future), (b) performance indicators of the underlying assets in the security (including default and delinquency rates), (c) vintage, (d) geographic concentration, (e) impact of foreign exchange rates on foreign currency denominated securities and (f) industry analyst reports, sector credit ratings, and volatility of the security's fair value. In addition, the Company's accounting policy for other-than-temporary impairment recognition requires an other-than-temporary impairment charge be recorded when it is determined the security will be sold or it is more likely than not that the Company will be required to sell the security before recovery of the security's amortized cost basis (all fixed maturity securities and certain preferred equity securities) or the Company does not have the intent and ability to hold certain equity securities for a period of time that is sufficient to allow for any anticipated recovery in fair value.

Subsequent to March 31, 2014, the Company has not recognized any additional material other-than-temporary impairments.

Variable Interest Entities

The Company invests in limited partnerships and other entities subject to variable interest entity ("VIE") analysis under the VIE subsections of Accounting Standards Codification ("ASC") 810, *Consolidation*. The Company analyzes each investment to determine whether it is a VIE, and if so, whether the Company is the primary beneficiary or a significant interest holder based on a qualitative and quantitative assessment. The Company evaluates the design of the entity, the risks to which the entity was designed to expose the variable interest holder and the extent of the Company's control of and variable interest in the VIE. As of March 31, 2014 the Company has determined that it is the primary beneficiary of one VIE in the low-income housing tax credit sector, and as such, this VIE has been consolidated in the Company's financial statements. The carrying value of assets and liabilities and the Company's maximum exposure to loss of the consolidated VIE as of March 31, 2014 and December 31, 2013 were immaterial to the Company.

The Company has variable interests in VIEs for which it is not the primary beneficiary and accounts for these VIEs under the equity method in accordance with ASC 323, *Investments-Equity Method and Joint Ventures*. These VIEs are principally private equity limited partnerships in which the Company has invested as a passive limited partner. The partnerships were deemed to be VIEs because the equity holders as a group lack the power to direct the activities that most significantly impact the respective entity's economic performance. The VIEs generate variability primarily from investment portfolio performance and that variability is passed to equity holders. For these VIEs, the Company absorbs a portion, but not a majority, of this variability. The net carrying value of non- consolidated VIEs in which the Company has a significant variable interest was $229 million and $212 million as of March 31, 2014 and December 31, 2013, respectively, and the Company's maximum exposure to loss was $244 million and $242 million as of March 31, 2014 and December 31, 2013, respectively. The assets are included in Other Investments on the accompanying Consolidated Balance Sheets. Maximum exposure to loss includes the carrying value and unfunded commitment of the VIEs. There is no recourse provision to the general credit of the Company for any VIEs beyond the full amount of the Company's loss exposure.

Deferred Acquisition Costs

Total deferred acquisition costs were $3.125 billion and $3.115 billion as of March 31, 2014 and December 31, 2013, respectively. Deferred acquisition costs are costs that are directly related to the acquisition or renewal of insurance contracts. All other acquisition related costs, including market research, training, administration, unsuccessful acquisition or renewal efforts, and product development, are charged to expense as incurred. Deferred acquisition costs are reviewed annually for recoverability. Investment income is considered in the recoverability assessment. For short-duration insurance contracts, acquisition costs include commissions, underwriting expenses, and premium taxes and assessments. For long-duration insurance contracts, these costs include first year commissions in excess of annual renewal commissions and variable sales and underwriting expenses.

Goodwill

Goodwill assets were $4.820 billion and $4.820 billion as of March 31, 2014 and December 31, 2013, respectively. Goodwill is tested for impairment at least annually using either a qualitative or a quantitative process. Election of the approach can be made at the reporting unit level. The reporting unit has the option to skip the qualitative test and move directly to completion of the quantitative process. The Company's SBUs are deemed reporting units. The qualitative approach can be used to evaluate if there are any indicators of impairment. Through this process, the reporting unit must determine if there is indication that it is more likely than not that the fair value of the reporting unit is less than its carrying amount, including goodwill. If it is determined that there is an indication of potential impairment, the reporting unit must complete the quantitative process. The quantitative approach is a two-step process. The first step is performed to identify potential impairment and, if necessary, the second step is performed for the purpose of measuring the amount of impairment, if any. Impairment is recognized only if the carrying amount is not recoverable from the discounted cash flows using a "market" rate and is measured as the difference between the carrying amount and the implied fair value. Other changes in the carrying amount of goodwill are primarily caused by foreign currency translation adjustments and acquisitions.

In 2013, the Company utilized a qualitative test in accordance with the Company's accounting policy.

Deferred Income Taxes

The net deferred tax asset was $879 million and $1.251 billion as of March 31, 2014 and December 31, 2013, net of a valuation allowance of $162 million and $173 million respectively. The net decrease in the Company's net deferred income tax asset is primarily due to changes in net unrealized capital gains and losses on investments. The decrease in the valuation allowance is primarily due to the disposal of certain foreign subsidiaries offset by net operating losses generated in certain foreign subsidiaries where there is uncertainty in the timing and amount of realization of those losses. Management believes it is more likely than not that the Company's net deferred income tax asset will be realized based upon the Company's ability and the likelihood of generating future taxable income.

The income tax provision is calculated under the liability method. Deferred income tax assets and liabilities are recorded based upon the difference between the financial statement and tax bases of assets and liabilities at the enacted tax rates. The principal assets and liabilities giving rise to such differences are net unrealized capital gains and losses on investments, insurance loss reserves, unearned premiums, deferred policy acquisition costs, employee benefits, net operating losses and intangible assets.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (amounts in millions):

Balance at December 31, 2013	$298
Additions for tax positions of prior years	24
Reductions for tax positions of prior years	(22)
Translation	2
Balance at March 31, 2014	$302

Included in the tabular roll forward of unrecognized tax benefits is interest and penalties in the amount of $95 million and $93 million as of March 31, 2014 and December 31, 2013, respectively.

Included in the balance at March 31, 2014, is $157 million related to tax positions that would impact the effective tax rate.

The Company recognizes interest and penalties related to unrecognized tax benefits in Federal, state, and foreign income tax expense. For the three months ended March 31, 2014 and 2013, the Company recognized $3 million and $4 million of interest and penalties in each period. The Company had $98 million and $95 million of interest and penalties accrued as of March 31, 2014 and December 31, 2013, respectively.

The Company believes that the range of reasonably possible changes to the balance of unrecognized tax benefits could decrease by $0 to $100 million within the next twelve months as a result of the potential settlements with the IRS for the taxable years 2002 through 2005.

The IRS has completed its review of the Company's United States Federal income tax returns through the 2001 tax year and is currently reviewing income tax returns for the 2002 through 2011 tax years. Any adjustments that may result from the IRS examinations of these income tax returns are not expected to have a material impact on the financial position, liquidity, or results of operations of the Company.

Pension and Postretirement Benefit Obligations

The Company sponsors non-contributory defined benefit pension plans ("the Plans") covering substantially all U.S. and Canadian employees. The benefits and eligibility are based on age, years of service, and the employee's final average compensation, as more fully described in the Plans. Some foreign subsidiaries also sponsor defined benefit pension plans. In 2014, the Company added a new cash balance benefit formula for all eligible U.S. employees and froze credited service under the plan's final average pay formula.

The Company sponsors non-qualified supplemental pension plans for selected highly compensated employees to restore the pension benefits they would be entitled to under the Company's U.S. tax qualified, defined benefit pension plan had it not been for limits imposed by the Internal Revenue Code. The supplemental plans are unfunded.

The Company also provides certain healthcare and life insurance benefits ("Postretirement") covering substantially all U.S. and Canadian employees. In 2014, the Company's U.S. postretirement medical and dental cost sharing arrangement changed to a defined contribution model with an annual dollar contribution amount based on age and years of eligible credited service. Life insurance benefits are based on a participant's final compensation subject to the plan maximum. The postretirement plan is unfunded.

The discount rate assumption used to determine the benefit obligations is based on a yield curve approach where the cash flows related to the benefit plans' liability stream is discounted at an interest rate specifically applicable to the timing of the cash flows. The process calculates the present value of these cash flows and determines the equivalent single discount rate that produces the same present value of the future cash flows. On an annual basis, the Company reviews the discount rate assumption used to determine the benefit obligations and the composition of various yield curves to ensure that the assumed discount rate reflects the Company's best estimate of the rate of return inherent in a portfolio of high-quality debt instruments that would provide the cash flows necessary to settle the Company's projected benefit payments. In choosing the expected long-term rate of return on plan assets, the Company's Retirement Board considers the historical returns of equity and fixed income markets in conjunction with current economic and financial market conditions.

About the Company

Boston-based LMHC, the parent corporation of the Liberty Mutual Insurance group of entities, is a diversified global insurer and third largest property and casualty insurer in the U.S. based on 2013 direct written premium. The Company also ranks 81st on the Fortune 100 list of largest corporations in the U.S. based on 2012 revenue. As of December 31, 2013, LMHC had $121.282 billion in consolidated assets, $102.270 billion in consolidated liabilities, and $38.509 billion in annual consolidated revenue.

LMHC, through its subsidiaries and affiliated companies, offers a wide range of property-casualty insurance products and services to individuals and businesses alike. In 2001 and 2002, the Company formed a mutual holding company structure, whereby the three principal mutual insurance companies, LMIC, LMFIC and EICOW, each became separate stock insurance companies under the ownership of LMHC.

Functionally, the Company conducts substantially all of its business through strategic business units, with each operating independently of the others with dedicated sales, underwriting, claims, actuarial, financial and certain information technology resources. Management believes this structure allows each business unit to execute its business strategy and/or to make acquisitions without impacting or disrupting the operations of the Company's other business units.

LMHC employs more than 50,000 people in approximately 900 offices throughout the world. For a full description of the Company's business operations, products and distribution channels, please visit Liberty Mutual's Investor Relations web site at www.libertymutual.com/investors.