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

Quarter Ended March 31, 2015

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, 2015 and 2014. 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, 2014 Audited Consolidated Financial Statements, March 31, 2015 Unaudited Consolidated Financial Statements and First Quarter 2015 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 2015 Unaudited Consolidated Financial Statements.

Three Months Ended March 31, 2015 - Consolidated Results of Operations

- Revenues for the three months ended March 31, 2015 were $9.680 billion, an increase of $18 million or 0.2% over the same period in 2014.
- Net written premium ("NWP") for the three months ended March 31, 2015 was $9.399 billion, an increase of $613 million or 7.0% over the same period in 2014.
- Pre-tax operating income ("PTOI") for the three months ended March 31, 2015 was $553 million, a decrease of $119 million or 17.7% from the same period in 2014.
- Catastrophe losses for the three months ended March 31, 2015 were $496 million, an increase of $9 million or 1.8% over the same period in 2014.
- Pre-tax loss associated with the Venezuela devaluation and foreign exchange under hyperinflationary accounting (including other-than-temporary impairments and foreign exchange losses on certain Venezuela investments) was $163 million in 2015 compared to a pre-tax loss of $274 million in the same period in 2014.
- Net operating income for the three months ended March 31, 2015 was $426 million, a decrease of $126 million or 22.8% from the same period in 2014.
- Net income attributable to LMHC for the three months ended March 31, 2015 was $276 million, an increase of $11 million or 4.2% over the same period in 2014.
- The consolidated combined ratio before catastrophes[1] and net incurred losses attributable to prior years[2] for the three months ended March 31, 2015 was 92.8%, an improvement of 1.2 points over the same period in 2014. 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, 2015 improved 2.4 points to 97.1%.
- Cash flow from operations for the three months ended March 31, 2015 was $728 million, an increase of $410 million or 128.9% over the same period in 2014.

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[1]Catastrophes include all current accident year catastrophe losses for severe storms in the U.S., U.K. and Ireland floods. 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, 2015

- Total assets were $124.557 billion as of March 31, 2015, an increase of $264 million or 0.2% over December 31, 2014.

- Total equity was $20.550 billion as of March 31, 2015, an increase of $259 million or 1.3% over December 31, 2014.

Subsequent Events

Management has assessed material subsequent events through May 12, 2015 the date the financial statements were available.

CONSOLIDATED RESULTS OF OPERATIONS

The Company has identified consolidated PTOI and PTOI before LP, LLC and other equity method 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, LLC and other equity method income is defined as PTOI excluding LP, LLC and other equity method results recognized on the equity method. PTOI before LP, LLC and other equity method 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, LLC and other equity method 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.

On July 24, 2014 and October 28, 2014, LMGI issued $750 million and $300 million of Senior Notes due 2044 (the "2044 Notes"), respectively. Interest is payable semi-annually at a fixed rate of 4.85%. The 2044 Notes mature on August 1, 2044.

On July 17, 2014, the Company entered into a reinsurance transaction with National Indemnity Company ("NICO"), a subsidiary of Berkshire Hathaway Inc., on a combined aggregate excess of loss agreement (the "NICO Reinsurance Transaction") for substantially all of the Company's U.S. workers compensation (pre-2014 accident year) and asbestos and environmental ("A&E") liabilities, attaching at approximately $12.5 billion of combined aggregate reserves, with an aggregate limit of $6.5 billion and sublimits of $3.1 billion for A&E liabilities and approximately $4.5 billion for certain workers compensation liabilities. At the closing of the NICO Reinsurance Transaction, but effective as of January 1, 2014, the Company ceded approximately $3.3 billion of existing liabilities under this retroactive reinsurance agreement. NICO will provide approximately $3.2 billion of additional aggregate adverse development cover. The Company paid NICO total consideration of approximately $3.0 billion. In general terms, the covered business includes post December 31, 2013 development on: (1) A&E liabilities arising under policies of insurance and reinsurance with effective dates prior to January 1, 2005; and (2) workers compensation liabilities arising out of policies on the books of the Company's Commercial Insurance SBU as of December 31, 2013, as respects injuries or accidents occurring prior to January 1, 2014. With respect to the ceded A&E business, NICO has been given authority to handle claims, subject to the Company's oversight and control. With respect to the ceded workers compensation business, the Company will continue to handle claims. The NICO Reinsurance Transaction is accounted for as retroactive reinsurance in the Company's GAAP Consolidated Financial Statements and resulted in a pre-tax loss of $128 million as of the effective date, which was included in the third quarter 2014 results. See the Reinsurance Recoverables section for additional detail.

On July 16, 2014, the Company purchased from Uni.Asia Capital Sdn Bhd its 68.09% stake in Uni.Asia General Insurance Berhad ("Uni.Asia"), a Malaysia property-casualty insurer, for approximately $118 million. On September 8, 2014, the Company purchased 18,679,881 ordinary shares representing an additional 18.68% stake in Uni.Asia through a mandatory tender offer for approximately $32 million. As a result of these actions, the Company now owns 86.77% of Uni.Asia.

On July 8, 2014, the Company acquired a Mexico surety company Primero Fianzas from Grupo Valores Operativos Monterrey, a private investor group. The parties have not disclosed the financial terms of the transaction. Primero Fianzas had $33 million of gross written premium in 2013.

On June 12, 2014, the Company announced its plans to acquire Hughes Insurance ("Hughes Insurance Agreement"), an independent insurance broker in Northern Ireland, in a transaction expected to close on or about July 1, 2015. The Company's subsidiary in Ireland has agreed to become the primary underwriter of Hughes Insurance in Northern Ireland. Hughes Insurance offers motor, van, household, small-to-medium-enterprise commercial insurance and travel insurance with £60 million in gross written premium for the financial year ended March 31, 2014, making it the independent insurance broker with the largest amount of gross written premium in Northern Ireland for that year. The Company distributes 1 in 5 motor insurance policies sold in Northern Ireland and employs over 300 people.

On June 10, 2014, the Company consolidated its existing Group Benefits, Accident and Health ("A&H"), and Individual Life operations into a new market segment in Commercial Insurance called Liberty Mutual Benefits. All prior periods have been restated to reflect the new market segment.

On April 1, 2014, the Company sold Summit Holding Southeast, Inc., a mono-line workers compensation company based in Florida, and its related companies (together, "Summit"), 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.

On February 21, 2014, Liberty International Argentina Holdings S.A. and Liberty Risk Services Argentina S.A. (together, the "Argentina operations") were sold by Liberty International Latin America Holdings LLC and Liberty UK and Europe Holdings Limited to LAFO S LLC and LAFT S LLC resulting in a net loss of $77 million. The results of the Argentina operations are presented as Discontinued Operations on the accompanying Consolidated Statements of Income and are no longer included with Liberty International.

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.

On February 10, 2015, the Venezuelan government issued Official Gazette # 6171 that created a new three tier exchange rate system. The three tiers are (1) CENCOEX exchange rate (at VEF/USD 6.30:1) for essential imports (food and medicines), as in the past; (2) SICAD exchange rate (at VEF/USD of 12.00:1 as of the date of the official gazette) for non-essential imports; and (3) SIMADI exchange rate which is a market-clearing exchange rate (based on the Exchange Accord No. 33). The SIMADI will mainly operate through banks and authorized brokerage houses. Dollar-suppliers and buyers freely have to present their positions in order to reach a market outcome. Exchange transactions can be done in cash and/or government bonds (via swap). The SIMADI exchange rate as of the date of issuance of the official gazette was approximately VEF/USD of 170:1.

For the three months ended March 31, 2015, the Company recognized a $175 million pre-tax realized loss due to impairments and foreign exchange losses on certain Venezuela investments. As of March 31, 2015, the Company's Venezuela operations had GAAP equity of approximately $793 million, which could be impacted by future devaluations.

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 December 31, 2014 (12.00:1).

For the three months ended March 31, 2014, the previously discussed change resulted in the Company recognizing a net $20 million loss in PTOI which comprises a net loss of $128 million from remeasuring its monetary assets and liabilities, a net gain of $110 million from the earn-through of unearned premium and amortization of deferred acquisition costs at historical rates and the amortization of basis on certain investments of $2 million. The Company also recognized a $254 million pre-tax 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, net of tax, in other comprehensive income.

The Company's four SBUs are as follows:

- Personal Insurance includes all domestic personal lines business. Products are distributed through separately managed distribution channels under the Liberty Mutual Insurance and Safeco Insurance brands.

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

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

- Global Specialty comprises a wide array of products and services offered through three market segments: Liberty Specialty Markets ("LSM"), Liberty International Underwriters ("LIU"), and Liberty Mutual Surety ("LM Surety").

Overview – Consolidated

Consolidated NWP by significant line of business was as follows:

	Three Months Ended March 31,		
$ in Millions	**2015**	**2014**	**Change**
Private passenger automobile	$3,409	$3,114	9.5%
Homeowners	1,265	1,202	5.2
Specialty insurance	897	743	20.7
Commercial multiple-peril / fire	582	616	(5.5)
Workers compensation - Voluntary	525	554	(5.2)
Workers compensation - Involuntary	28	38	(26.3)
Commercial automobile	526	467	12.6
Global specialty reinsurance	520	520	-
Group disability and group life	406	342	18.7
General liability	331	338	(2.1)
Individual life and health	262	222	18.0
Surety	218	186	17.2
Global specialty inland marine	107	140	(23.6)
Other[1]	323	304	6.3
Total NWP[2]	$9,399	$8,786	7.0%

1 Primarily includes NWP from assumed voluntary reinsurance (“AVR”), allied lines and domestic inland marine.
2 NWP associated with internal reinsurance has been re-allocated to the appropriate lines of business.

NWP for the three months ended March 31, 2015 was $9.399 billion, an increase of $613 million over the same period in 2014. Significant changes by major line of business include:

- Private passenger automobile NWP increased $295 million over the same period in 2014. The increase reflects rate and model year increases and, to a lesser extent, growth in policies in-force in Personal Insurance as well as continued growth in Liberty International primarily due to Venezuela inflation and to a lesser extent acquisitions, partially offset by the foreign exchange impact of a stronger U.S. dollar.
- Homeowners NWP increased $63 million over the same period in 2014. The increase reflects rate and coverage increases as well as growth in homeowners policies in-force in Personal Insurance.
- Specialty insurance NWP increased $154 million over the same period in 2014. The increase primarily reflects reduced reinsurance costs due to rate reductions and program changes resulting from the centralization of external reinsurance purchasing.
- Workers compensation - Voluntary NWP decreased $29 million from the same period in 2014. The decrease was driven by targeted exposure reductions, partially offset by rate increases.
- Commercial automobile NWP increased $59 million over the same period in 2014. The increase primarily reflects inflation in Venezuela.
- Group disability and group life NWP increased $64 million over the same period in 2014. The increase reflects new business sales and higher retention.
- Individual life and health NWP increased $40 million over the same period in 2014. The increase reflects inflation in Venezuela and higher life-contingent structured settlement sales.
- Global specialty inland marine NWP decreased $33 million from the same period in 2014. The decrease primarily reflects program changes.

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	**2015**	**2014**	**Change**
Personal Insurance	$3,904	$3,712	5.2%
Commercial Insurance	2,204	2,198	0.3
Liberty International	1,515	1,284	18.0
Global Specialty	1,486	1,481	0.3
Corporate and Other	290	111	161.3
Total NWP	$9,399	$8,786	7.0%
Foreign exchange effect on NWP change			(4.8)
NWP change excluding foreign exchange[1]			11.8%

1 Determined by assuming constant foreign exchange rates between periods.

Major drivers of NWP growth were as follows:

	Three Months Ended March 31,			
$ in Millions	**2015**	**2014**	**$ Change**	**Points Attribution**
Total NWP[1]	$9,399	$8,786	$613	7.0
Components of growth:				
Domestic personal automobile	2,512	2,364	148	1.7
-Domestic homeowners	1,242	1,171	71	0.8
-Homeowners quota share	(32)	(30)	(2)	-
Total domestic homeowners	1,210	1,141	69	0.8
International local businesses (ex foreign exchange)[2]	1,855	1,284	571	6.5
Specialty insurance (ex foreign exchange)[2]	948	750	198	2.3
Global specialty reinsurance (ex foreign exchange)[2]	553	520	33	0.4
Inland marine (ex foreign exchange)[2]	114	140	(26)	(0.3)
Domestic workers compensation	510	549	(39)	(0.4)
Domestic individual life	116	106	10	0.1
Domestic group disability and group life	300	245	55	0.6
Surety	218	186	32	0.4
Foreign exchange[2]	(423)	-	(423)	(4.8)
Other commercial lines	1,486	1,501	(15)	(0.3)
Total NWP	$9,399	$8,786	$613	7.0

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	**2015**	**2014**	**Change**
U.S.	$6,973	$6,644	5.0%
International[1]	2,426	2,142	13.3
Total NWP	$9,399	$8,786	7.0%

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	**2015**	**2014**	**Change**
Net operating income	$426	$552	(22.8%)
Net realized losses, net of tax	(150)	(223)	(32.7)
Discontinued operations, net of tax	-	(64)	(100.0)
Net income attributable to LMHC	$276	$265	4.2%

	Three Months Ended March 31,		
$ in Millions	**2015**	**2014**	**Change**
Revenues	$9,680	$9,662	0.2%
PTOI before catastrophes, net incurred losses attributable to prior years, Venezuela devaluation and foreign exchange and LP, LLC and other equity method (loss) income	$922	$903	2.1%
Catastrophes[1]	(496)	(487)	1.8
Net incurred losses attributable to prior years:			
- Asbestos & environmental	(1)	(1)	-
- All other[2,3]	133	39	NM
Venezuela devaluation and foreign exchange	12	(19)	NM
PTOI before LP, LLC and other equity method (loss) income	570	435	31.0
LP, LLC and other equity method (loss) income [4]	(17)	237	NM
PTOI	553	672	(17.7)
Net realized losses	(138)	(205)	(32.7)
Pre-tax income	415	467	(11.1)
Income tax expense	143	148	(3.4)
Consolidated net income before discontinued operations	272	319	(14.7)
Discontinued operations, net of tax	-	(64)	(100.0)
Consolidated net income	272	255	6.7
Less: Net loss attributable to non-controlling interest	(4)	(10)	(60.0)
Net income attributable to LMHC	$276	$265	4.2%
Cash flow from operations	$728	$318	128.9%

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

2 2015 includes a one-time benefit of $91 million due to a reduction in the estimated prior years' liability for state assessments related to workers compensation.

3 Net of earned premium and reinstatement premium attributable to prior years of $3 million and $25 million for the three months ended March 31, 2015 and 2014. Net of amortization of deferred gains on retroactive reinsurance of $1 million for the three months ended March 31, 2015 and 2014.

4 LP, LLC and other equity method (loss) 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, 2015 was $553 million, a decrease of $119 million from the same period in 2014. The decrease was driven by lower net investment income, as a result of lower valuations in LP and LLC private equity investments, primarily due to prior year IPO activity that did not recur as well as lower valuations in the energy sector. Additionally, energy production operating income declined $79 million. The decrease was partially offset by favorable net incurred losses attributable to prior years which includes a reduction in the estimated liability for state assessments related to workers compensation, and increased underwriting profit in Personal Insurance and Commercial Insurance.

Revenues for the three months ended March 31, 2015 were $9.680 billion, an increase of $18 million over the same period in 2014. The major components of revenues are net premium earned, net investment income, net realized losses, and fee and other revenues.

Net premium earned for the three months ended March 31, 2015 was $8.870 billion, an increase of $241 million over the same period in 2014. The increase primarily reflects the premium earned associated with the changes in NWP previously discussed and NWP growth during the last nine months of 2014.

Net investment income for the three months ended March 31, 2015 was $637 million, a decrease of $257 million from the same period in 2014. The decrease was primarily a result of lower valuations in LP and LLC private equity investments, primarily due to prior year IPO activity that did not recur as well as lower valuations in the energy sector.

Net realized losses for the three months ended March 31, 2015 were $138 million, a decrease of $67 million from the same period in 2014. The decrease in net losses relates to lower impairment losses recognized on certain Venezuelan securities in 2015 as compared to the impairment losses recognized as a result of the change in the Venezuela currency exchange rate used for remeasurement purposes in 2014.

Fee and other revenues for the three months ended March 31, 2015 were $311 million, a decrease of $33 million from the same period in 2014. The decrease primarily reflects lower oil and gas revenues (in Corporate and Other), partially offset by higher fees associated with single premium whole life policies and group disability (in Commercial Insurance).

Claims, benefits and expenses for the three months ended March 31, 2015 were $9.265 billion, an increase of $70 million over the same period in 2014. The increase primarily reflects losses and expenses consistent with business growth and higher depreciation related to Liberty Energy, partially offset by the impact of the Venezuela devaluation in the first quarter of 2014 and favorable incurred losses attributable to prior years which includes a reduction in the estimated liability for state assessments related to workers compensation.

Income tax expense on continuing operations for the three months ended March 31, 2015 was $143 million, a decrease of $5 million from the same period in 2014. The Company's effective tax rate on continuing operations for the three months ended March 31, 2015 was 35% compared to 32% for the same period in 2014. The increase in the effective tax rate for the three months ended March 31, 2015 over 2014 was primarily due to non-deductible foreign impairments resulting from Venezuelan currency devaluation. The Company's effective tax rate on continuing operations approximates the U.S. Federal statutory rate of 35% principally due to non-U.S. operations offset by tax-exempt investment income. Prior period amounts have been updated to reflect the 2015 adoption of the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2014-01 related to qualified affordable housing projects. Under this standard, investments in qualified affordable housing projects are accounted for using the proportional amortization method and the net investment performance is reported as a component of income tax expense.

Net income attributable to LMHC for the three months ended March 31, 2015 was $276 million, an increase of $11 million over the same period in 2014.

Cash flow from operations for the three months ended March 31, 2015 was $728 million, an increase of $410 million over the same period in 2014. The increase was driven by a reduction in pension funding in 2015 compared to 2014, business growth and the timing of catastrophe loss payments.

CONSOLIDATED	Three Months Ended March 31, 2015[1]	2014[1]	Change (Points)
Combined ratio before catastrophes and net incurred losses attributable to prior years			
Claims and claim adjustment expense ratio	61.7%	62.8%	(1.1)
Underwriting expense ratio	31.1	31.1	-
Dividend ratio	-	0.1	(0.1)
Subtotal	92.8	94.0	(1.2)
Catastrophes[2]	5.9	6.0	(0.1)
Net incurred losses attributable to prior years[3,4]	(1.6)	(0.5)	(1.1)
Total combined ratio[5]	97.1%	99.5%	(2.4)

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. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

3 2015 includes a one-time benefit of $91 million due to a reduction in the estimated prior years' liability for state assessments related to workers compensation.

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

5 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, 2015 was 92.8%, an improvement of 1.2 points over the same period in 2014. The improvement reflects favorable loss experience in the homeowners line of business due to fewer large fire losses, as well as improved current accident year loss ratios across most Commercial Insurance casualty lines of business, partially offset by unfavorable increases in claims severity in Venezuela primarily due to inflation.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three months ended March 31, 2015 was 97.1%, an improvement of 2.4 points over the same period in 2014. The decrease reflects the changes in the combined ratio previously discussed as well as favorable net incurred losses attributable to prior years which includes a reduction in the estimated liability for state assessments related to workers compensation.

PERSONAL INSURANCE

Overview – Personal Insurance

Personal Insurance sells automobile, homeowners and other types of property and casualty insurance coverage to individuals in the United States. Personal Insurance comprises two segments: Personal Lines and Safeco. Personal Lines products are distributed through approximately 2,300 licensed captive sales representatives, approximately 500 licensed telesales counselors, third-party producers and the Internet. Personal Lines' largest source of new business is through its more than 17,000 sponsored affinity groups (including employers, professional and alumni associations, credit unions, and other partnerships). Safeco products are distributed nationally through independent agents.

Effective June 10, 2014, the Individual Life business was moved from Personal Insurance to Commercial Insurance. All prior periods have been restated to reflect this change.

Personal Insurance NWP by segment was as follows:

	Three Months Ended March 31,		
$ in Millions	**2015**	**2014**	**Change**
Personal Lines	$2,225	$2,107	5.6%
Safeco	1,679	1,605	4.6
Total NWP	$3,904	$3,712	5.2%

Personal Insurance NWP by line of business was as follows:

	Three Months Ended March 31,		
$ in Millions	**2015**	**2014**	**Change**
Private passenger automobile	$2,436	$2,341	4.1%
Homeowners and other	1,468	1,371	7.1
Total NWP	$3,904	$3,712	5.2%

NWP for the three months ended March 31, 2015 was $3.904 billion, an increase of $192 million over the same period in 2014.

Private passenger automobile NWP for the three months ended March 31, 2015 was $2.436 billion, an increase of $95 million over the same period in 2014. The growth reflects a 4.8% increase in average written premiums resulting from rate, model year increases and, to a lesser extent, growth in policies in-force of 0.3% as compared to March 31, 2014.

Homeowners and other NWP for the three months ended March 31, 2015 was $1.468 billion, an increase of $97 million over the same period in 2014. The growth reflects a 6.3% increase in homeowners average written premiums resulting from rate, coverage increases, and growth in policies in-force of 1.2% as compared to March 31, 2014.

Results of Operations – Personal Insurance

	Three Months Ended March 31,		
$ in Millions	**2015**	**2014**	**Change**
Revenues	$4,133	$3,873	6.7%
PTOI before catastrophes and net incurred losses attributable to prior years	$677	$552	22.6%
Catastrophes[1]	(408)	(335)	21.8
Net incurred losses attributable to prior years	13	(10)	NM
PTOI	$282	$207	36.2%

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.
NM = Not Meaningful

PTOI for the three months ended March 31, 2015 was $282 million, an increase of $75 million over the same period in 2014. The increase was driven by profit margin on growth in earned premium, lower current accident year non-catastrophe losses in the homeowners line of business due to fewer large fire losses, higher advertising expenses in the prior year as a result of the 2014 Winter Olympics and favorable net incurred losses attributable to prior years. These items were partially offset by higher catastrophe losses.

Revenues for the three months ended March 31, 2015 were $4.133 billion, an increase of $260 million over the same period in 2014. The major components of revenues are net premium earned and net investment income.

Net premium earned for the three months ended March 31, 2015 was $3.952 billion, an increase of $247 million over the same period in 2014. The increase reflects the premium earned associated with the changes in NWP previously discussed and NWP growth during the last nine months of 2014.

Net investment income for the three months ended March 31, 2015 was $151 million, an increase of $14 million over the same period in 2014. The increase was driven by a higher invested asset base partially offset by a lower investment yield.

Claims, benefits and expenses for the three months ended March 31, 2015 were $3.851 billion, an increase of $185 million over the same period in 2014. The increase was driven by business growth and higher current accident year catastrophes. These items were partially offset by higher advertising expenses in the prior year as a result of the 2014 Winter Olympics and favorable development of prior accident year losses versus unfavorable development in the prior year.

PERSONAL INSURANCE	Three Months Ended March 31, 2015	2014	Change (Points)
Combined ratio before catastrophes and net incurred losses attributable to prior years			
Claims and claim adjustment expense ratio	60.8%	62.2%	(1.4)
Underwriting expense ratio	25.3	26.0	(0.7)
Subtotal	86.1	88.2	(2.1)
Catastrophes[1]	10.3	9.0	1.3
Net incurred losses attributable to prior years	(0.3)	0.3	(0.6)
Total combined ratio	96.1%	97.5%	(1.4)

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, 2015 was 86.1%, a decrease of 2.1 points from the same period in 2014. The decrease in the claims and claim adjustment expense ratio primarily reflects favorable loss experience in the homeowners line of business. The decrease in the underwriting expense ratio was driven by higher advertising expenses in the prior year as a result of the 2014 Winter Olympics.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three months ended March 31, 2015 was 96.1%, a decrease of 1.4 points from the same period in 2014. In addition to the changes in the combined ratio previously discussed, the decrease was driven by favorable development of prior accident year losses versus unfavorable development in the prior year, partially offset by higher catastrophe losses.

COMMERCIAL INSURANCE

Overview – Commercial Insurance

Commercial Insurance offers a wide array of property-casualty, group benefits, and life insurance coverages through independent agents, brokers, benefit consultants, captive agents, and bank partners throughout the United States. Commercial Insurance is organized into the following four market segments: Business Insurance; National Insurance; Liberty Mutual 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. Liberty Mutual Benefits provides short and long-term disability, accident, health and group life insurance to mid-sized and large businesses, as well as life and annuity products to individuals in the United States. 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 June 10, 2014, a new market segment was established in Commercial Insurance called Liberty Mutual Benefits, consolidating the existing Group Benefits, A&H, and Individual Life operations into one unit. All prior periods have been restated to reflect the new structure.

Commercial Insurance NWP by market segment was as follows:

	Three Months Ended March 31,		
$ in Millions	**2015**	**2014**	**Change**
Business Insurance	$1,233	$1,270	(2.9%)
National Insurance	510	521	(2.1)
Liberty Mutual Benefits	419	355	18.0
Other Commercial Insurance	42	52	(19.2)
Total NWP	$2,204	$2,198	0.3%

Commercial Insurance NWP by line of business was as follows:

	Three Months Ended March 31,		
$ in Millions	**2015**	**2014**	**Change**
Commercial multiple-peril	$479	$486	(1.4%)
Workers compensation - Voluntary	459	477	(3.8)
Workers compensation – Involuntary	28	38	(26.3)
Commercial automobile	350	348	0.6
Group disability and life	300	244	23.0
General liability	291	298	(2.3)
Individual life	116	106	9.4
Other lines	181	201	(10.0)
Total NWP	$2,204	$2,198	0.3%

NWP for the three months ended March 31, 2015 was $2.204 billion, an increase of $6 million over the same period in 2014. The increase was driven by higher group disability and life premium due to new business sales and higher retention, higher life-contingent structured settlement sales, and rate increases across all casualty lines of business. These increases were partially offset by targeted workers

compensation exposure declines, both voluntary and involuntary, and continued competitive market pressures impacting property premium.

	Three Months Ended March 31,		
$ in Millions	**2015**	**2014**	**Change**
Revenues	$2,759	$2,742	0.6%
PTOI before catastrophes and net incurred losses attributable to prior years	$305	$276	10.5%
Catastrophes[1]	(93)	(123)	(24.4)
Net incurred losses attributable to prior years[2,3]	92	22	NM
PTOI	$304	$175	73.7%

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 2015 includes a one-time benefit of $91 million due to a reduction in the estimated prior years' liability for state assessments related to workers compensation.

3 Net of earned premium attributable to prior years of $2 million for the three months ended March 31, 2015 and $15 million for the same period in 2014. Net of amortization of deferred gains on assumed retroactive reinsurance of zero for the three months ended March 31, 2015 and $1 million for the same period in 2014.

NM=Not Meaningful

PTOI for the three months ended March 31, 2015 was $304 million, an increase of $129 million over the same period in 2014. The increase was driven by favorable net incurred losses attributable to prior years, which includes a reduction in the estimated liability for state assessments related to workers compensation, decreased current accident year losses across most casualty lines of business, and lower catastrophe losses. These decreases were partially offset by higher costs related to salary, benefits and information technology initiatives.

Revenues for the three months ended March 31, 2015 were $2.759 billion, an increase of $17 million over the same period in 2014. The major components of revenues are net premium earned, net investment income, net realized losses and fee and other revenues.

Net premium earned for the three months ended March 31, 2015 was $2.245 billion, an increase of $9 million over the same period in 2014. The increase was driven by Liberty Mutual Benefits, partially offset by decreases in other lines, primarily workers compensation.

Net investment income for the three months ended March 31, 2015 was $384 million, an increase of $8 million over the same period in 2014. The increase was driven by higher invested assets in Liberty Mutual Benefits, partially offset by lower investment yields.

Net realized losses for the three months ended March 31, 2015 were $6 million versus zero in the same period in 2014.

Fee and other revenues for the three months ended March 31, 2015 were $136 million, an increase of $6 million over the same period in 2014. The increase reflects higher fees associated with single premium whole life policies and group disability, partially offset by lower third-party administrator fee income and lower commission revenue from servicing carrier operations. 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, 2015 were $2.461 billion, a decrease of $106 million from the same period in 2014. The decrease was driven by favorable incurred losses attributable to prior years, which includes a reduction in the estimated liability for state assessments related to workers compensation, lower current accident year losses across most casualty lines of business, and

lower catastrophe losses, partially offset by higher costs related to salary, benefits and information technology initiatives.

	Three Months Ended March 31,		
			Change
COMMERCIAL INSURANCE	**2015**	**2014**	**(Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years			
Claims and claim adjustment expense ratio	61.7%	66.0%	(4.3)
Underwriting expense ratio	34.2	32.6	1.6
Dividend ratio	0.1	0.2	(0.1)
Subtotal	96.0	98.8	(2.8)
Catastrophes[1]	5.1	6.6	(1.5)
Net incurred losses attributable to prior years[2,3]	(5.0)	(1.2)	(3.8)
Total combined ratio	96.1%	104.2%	(8.1)

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 2015 includes a one-time benefit of $91 million due to a reduction in the estimated prior years' liability for state assessments related to workers compensation.

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

The Commercial Insurance combined ratio before catastrophes and net incurred losses attributable to prior years for the three months ended March 31, 2015 was 96.0%, a decrease of 2.8 points from the same period in 2014. The improvement in the claims and claim adjustment expense ratio was driven by decreased current accident year loss ratios across most casualty lines of business reflecting the reunderwriting of these lines in recent years, workers compensation in particular. The decrease was partially offset by an increase in the underwriting expense ratio driven by lower earned premium and higher costs related to salary, benefits and information technology initiatives.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three months ended March 31, 2015 was 96.1%, a decrease of 8.1 points from the same period in 2014. The decrease reflects the improvement previously discussed as well as favorable net incurred losses attributable to prior years, which includes a reduction in the estimated liability for state assessments related to workers compensation, and lower current accident year catastrophe losses.

LIBERTY INTERNATIONAL

Overview – Liberty International

Liberty International sells property, casualty, health and life insurance products and services to individuals and businesses in four market segments. Private passenger automobile insurance is the single largest line of business.

The Liberty International SBU was realigned effective in the third quarter of 2014. The realignment better positions the organization for continued growth and improved profitability in an increasingly competitive global marketplace. The four market segments that comprise the SBU are: Latin America and Iberia, including Venezuela, Brazil, Colombia, Chile, Ecuador, Spain and Portugal; Emerging Europe, including Turkey, Poland, Ireland and the United Kingdom; Asia, including Thailand, Singapore, Hong Kong, Vietnam and Malaysia (as a result of the Uni.Asia acquisition in July 2014); and Large Emerging Markets, including Russia, China and India. Other includes internal reinsurance. All prior periods have been restated to reflect this change.

Liberty International NWP by market segment was as follows:

	Three Months Ended March 31,			
$ in Millions	**2015**	**2014**	**Change**	**Change ex. foreign exchange[1]**
Latin America and Iberia	$1,227	$1,029	19.2%	49.7%
Asia	126	99	27.3	28.4
Emerging Europe	94	102	(7.8)	9.7
Large Emerging Markets	49	54	(9.3)	5.9
Other	19	-	NM	NM
Total NWP	$1,515	$1,284	18.0%	44.4%

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

Liberty International NWP by line of business was as follows:

	Three Months Ended March 31,		
$ in Millions	**2015**	**2014**	**Change**
Private passenger automobile	$897	$750	19.6%
Commercial automobile	154	116	32.8
Homeowners	55	61	(9.8)
Life and health	252	213	18.3
Other [1]	157	144	9.0
Total NWP	$1,515	$1,284	18.0%

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, 2015 was $1.515 billion, an increase of $231 million over the same period in 2014. Excluding the negative impact of foreign exchange driven by the strengthening of the U.S. dollar, the change reflects local currency growth across all segments including: Latin America and Iberia due to an increase in private passenger auto business in Brazil and increases in sum insured values in the auto and health lines of business resulting from inflation in Venezuela, Emerging Europe driven by Hughes Insurance in Ireland in the third quarter of 2014, Asia driven by the acquisition of Malaysia in the third quarter of 2014, Large Emerging Markets driven by expansion and business growth, and Other due to

internal reinsurance, which began in 2015. Further discussion of the Hughes Insurance Agreement and the Malaysia acquisition can be found in the Consolidated Results of Operations section.

Results of Operations – Liberty International

	Three Months Ended March 31,		
$ in Millions	**2015**	**2014**	**Change**
Revenues	$1,374	$1,314	4.6%
Mature operations and other[1] PTOI before catastophes, net incurred losses attributable to prior years and Venezuela devaluation and foreign exchange	$34	$60	(43.3%)
Emerging operations[2] pre-tax operating loss before catastophes, net incurred losses attributable to prior years and Venezuela devaluation and foreign exchange	(31)	(22)	(40.9)
Catastrophes[3]	-	(9)	(100.0)
Net incurred losses attributable to prior years	25	5	NM
Venezuela devaluation and foreign exchange	12	(19)	NM
PTOI	$40	$15	166.7%

1 Mature operations include Latin America and Iberia and Asia. Other includes internal reinsurance and home office expenses.
2 Emerging operations include Emerging Europe and Large Emerging Markets.
3 2014 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, 2015 was $40 million, an increase of $25 million over the same period in 2014. The increase was attributable to the Venezuela devaluation in the first quarter of 2014, favorable net incurred losses attributable to prior years, positive underwriting results driven by favorable auto frequency and health severity in Brazil, the absence of catastrophe losses in 2015 and the acquisition of Malaysia, partially offset by increased current year severity in Venezuela (primarily due to inflation).

Revenues for the three months ended March 31, 2015 were $1.374 billion, an increase of $60 million over the same period in 2014. The primary components of revenues are net premium earned, net investment income and net realized investment losses.

Net premium earned for the three months ended March 31, 2015 was $1.409 billion, a decrease of $26 million from the same period in 2014. The decrease was primarily due to foreign exchange driven by the strengthening of the U.S. dollar offset by premium earned associated with the local currency growth in NWP previously discussed.

Net investment income for the three months ended March 31, 2015 was $86 million, a decrease of $6 million from the same period in 2014. The decrease was primarily due to the strengthening of the U.S. dollar and generally lower interest rates, partially offset by a higher invested asset base.

Net realized investment losses for the three months ended March 31, 2015 were $171 million, a decrease of $83 million from the same period in 2014. The decrease in net losses relates to lower impairment losses recognized on certain Venezuelan securities in 2015 as compared to the impairment losses recognized as a result of the change in the Venezuela currency exchange rate used for remeasurement purposes in 2014.

Claims, benefits and expenses for the three months ended March 31, 2015 were $1.505 billion, a decrease of $48 million from the same period in 2014. The decrease was primarily driven by the strengthening of the

U.S. dollar and favorable auto frequency and health severity in Brazil, partially offset by unfavorable severity in Venezuela (primarily due to inflation) and the acquisition of Malaysia.

	Three Months Ended March 31,		
			Change
LIBERTY INTERNATIONAL	**2015[1]**	**2014[1]**	**(Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years			
Claims and claim adjustment expense ratio	68.4%	64.5%	3.9
Underwriting expense ratio	38.1	39.3	(1.2)
Subtotal	106.5	103.8	2.7
Catastrophes[2]	-	0.7	(0.7)
Net incurred losses attributable to prior years	(1.8)	(0.4)	(1.4)
Total combined ratio	104.7%	104.1%	0.6

1 The combined ratio has been adjusted to exclude the impact of the Venezuela devaluation and foreign exchange.
2 2014 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, 2015 was 106.5%, an increase of 2.7 points over the same period in 2014. The increase was driven by a 3.9 point increase in the claims and claim adjustment expense ratio primarily due to unfavorable increase in claims severity in Venezuela (primarily due to inflation), partially offset by favorable auto frequency and health severity in Brazil and a 1.2 point decrease in the underwriting expense ratio primarily due to overall improvement in Venezuela as well as the increased weighting of Venezuela relative to the total SBU.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three months ended March 31, 2015 was 104.7%, an increase of 0.6 points over the same period in 2014. The total combined ratio reflects the change in the combined ratio previously discussed, as well as favorable net incurred losses attributable to prior years, primarily in Venezuela, and the absence of catastrophe losses in 2015.

GLOBAL SPECIALTY

Overview – Global Specialty

Global Specialty comprises a wide array of products and services offered through three market segments: LSM, LIU, and LM Surety. LSM provides a wide range of product capabilities and capacity for specialty markets worldwide and is organized into three business units: Specialty, Commercial and Reinsurance. LIU sells inland marine and specialty commercial insurance worldwide through offices in Asia, Australia, the Middle East, North America and Latin America. LM Surety is a leading provider of global contract and commercial surety bonds to businesses of all sizes. Other primarily consists of internal reinsurance.

Global Specialty NWP by market segment was as follows:

	Three Months Ended March 31,		
$ in Millions	**2015**	**2014**	**Change**
LSM	$946	$886	6.8%
LIU	292	391	(25.3)
LM Surety	210	178	18.0
Other	38	26	46.2
Total NWP	$1,486	$1,481	0.3%
Foreign exchange effect on growth			(5.4)
NWP growth excluding foreign exchange[1]			5.7%

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, environmental impairment liability, commercial automobile, railroad, trade credit, excess and surplus property, crisis management, contingent lines and other;
(2) Reinsurance: includes worldwide multi-line marine, property, casualty and specialty reinsurance;
(3) Surety: includes contract and commercial surety bonds;
(4) Inland marine: handset protection coverage for lost or damaged wireless devices.

Global Specialty NWP by line of business was as follows:

	Three Months Ended March 31,		
$ in Millions	**2015**	**2014**	**Change**
Specialty insurance	$644	$640	0.6%
Reinsurance	520	520	-
Surety	215	181	18.8
Inland marine	107	140	(23.6)
Total NWP	$1,486	$1,481	0.3%

LSM growth was driven by specialty insurance business growth, offsetting reductions in LIU specialty insurance due to reunderwriting and pricing actions, primarily in general liability and commercial auto as well as timing. LSM reduced its assumed reinsurance due to market conditions which was offset by ceded reinsurance pricing and program changes. The increase in surety was due to increased contract surety program utilization and international growth (namely, the Primero Fianzas acquisition in 2014). Partially offsetting these increases were the adverse impact of inland marine program changes as well as the strengthened U.S. dollar.

Results of Operations – Global Specialty

	Three Months Ended March 31,		
$ in Millions	**2015**	**2014**	**Change**
Revenues	$1,310	$1,289	1.6%
PTOI before catastrophes and net incurred losses attributable to prior years	$182	$177	2.8%
Catastrophes [1]	(4)	(23)	(82.6)
Net incurred losses attributable to prior years [2]	15	(9)	NM
PTOI	$193	$145	33.1%

1 Catastrophes include all current accident year catastrophe losses for severe storms in the U.S. and U.K. floods. 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 $2 million for the three months ended March 31, 2015 and $9 million for the same period in 2014.

NM = Not Meaningful

PTOI for the three months ended March 31, 2015 was $193 million, an increase of $48 million over the same period in 2014. The increase was primarily driven by lower catastrophe losses and favorable net incurred losses attributable to prior years.

Revenues for the three months ended March 31, 2015 were $1.310 billion, an increase of $21 million over the same period in 2014. The major components of revenues are net premium earned and net investment income.

Net premium earned for the three months ended March 31, 2015 was $1.218 billion, an increase of $14 million over the same period in 2014. The increase reflects the previously mentioned growth in NWP.

Net investment income for the three months ended March 31, 2015 was $84 million, an increase of $1 million over the same period in 2014.

Claims, benefits and expenses for the three months ended March 31, 2015 were $1.113 billion, a decrease of $32 million from the same period in 2014. The decrease was driven primarily by lower catastrophe losses and favorable incurred losses attributable to prior years.

GLOBAL SPECIALTY	Three Months Ended March 31,		
	2015	2014	Change (Points)
Combined ratio before catastrophes and net incurred losses attributable to prior years			
Claims and claim adjustment expense ratio	57.5%	58.4%	(0.9)
Underwriting expense ratio	33.5	32.6	0.9
Dividend ratio	0.2	0.2	-
Subtotal	91.2	91.2	-
Catastrophes [1]	0.3	1.9	(1.6)
Net incurred losses attributable to prior years[2]	(1.2)	0.6	(1.8)
Total combined ratio	90.3%	93.7%	(3.4)

1 Catastrophes include all current accident year catastrophe losses for severe storms in the U.S. and U.K. floods. 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, 2015 was 91.2%, which is consistent with 2014. The decrease in the claims and claim adjustment expense ratio reflects improved reinsurance results and surety growth partially offset by inland marine due to program changes. The increase in the underwriting expense ratio is driven primarily by LM Surety due to higher acquisition costs along with increased personnel related 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, 2015 was 90.3%, a decrease of 3.4 points from the same period in 2014. The improvement reflects lower catastrophe losses and favorable net incurred losses attributable to prior years driven primarily by LIU and LSM as well as the offsetting changes to the combined ratio mentioned above.

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.

- Cessions related to certain retroactive reinsurance agreements, including the NICO Reinsurance Transaction, which is described further in "Reinsurance Recoverables."

- Effective January 1, 2014 until termination on December 31, 2014, Corporate and Commercial Insurance novated their voluntary and involuntary reinsurance treaties that applied to certain pre-2013 workers compensation claims and entered into two new agreements including: (1) certain pre-2014 voluntary workers compensation claims and, (2) certain pre-2014 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 an 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, property and casualty operations' investment income is allocated to the business units based on planned ordinary investment income returns by investment category. The difference between allocated net investment income and actual net investment income is included in Corporate and Other.

- Income related to LP, LLC and other equity method investments.

- Fee and other revenues include revenues from certain wholly owned non-insurance subsidiaries, primarily Liberty Energy. Liberty Energy generates revenue from the production and sale of oil and gas and related LP and LLC investments.

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

	Three Months Ended March 31,		
$ in Millions	**2015**	**2014**	**Change**
Reinsurance, net	$268	$81	NM
Workers compensation - Voluntary[1]	21	30	(30.0)
Other	1	-	NM
Total NWP	$290	$111	161.3%

[1] Booked as billed adjustment.
NM = Not Meaningful

NWP for the three months ended March 31, 2015 was $290 million, an increase of $179 million over the same period in 2014. The increase was primarily driven by reduced reinsurance costs due to rate reductions and program changes resulting from the centralization of external reinsurance purchasing along with higher internal reinsurance premiums and the timing of reinsurance programs.

Results of Operations – Corporate and Other

	Three Months Ended March 31,		
$ in Millions	**2015**	**2014**	**Change**
Revenues	$104	$444	(76.6%)
Pre-tax operating loss before catastrophes, net incurred losses attributable to prior years, and LP, LLC and other equity method (loss) income	($245)	($140)	75.0%
Catastrophes[1]	9	3	NM
Net incurred losses attributable to prior years:			
- Asbestos & environmental	(1)	(1)	-
- All other[2]	(12)	31	NM
Pre-tax operating loss before LP, LLC and other equity method (loss) income	(249)	(107)	132.7
LP, LLC and other equity method (loss) income [3]	(17)	237	NM
Pre-tax operating (loss) income	($266)	$130	NM

1 Catastrophes include all current accident year catastrophe losses for severe storms in the U.S. and U.K. and Ireland floods. 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 zero and $1 million for the three months ended March 31, 2015 and 2014. Net of amortization of deferred gains on retroactive reinsurance of zero and $1 million for the three months ended March 31, 2015 and 2014.
3 LP, LLC and other equity method (loss) income is included in net investment income in the accompanying Consolidated Statements of Income.
NM = Not Meaningful

Pre-tax operating loss for the three months ended March 31, 2015 was $266 million versus pre-tax operating income of $130 million in the same period in 2014. The change was driven by lower net investment income, as a result of lower valuations in LP and LLC private equity investments, primarily due to prior year IPO activity that did not recur as well as lower valuations in the energy sector. The year was further impacted by a $79 million reduction in oil and gas exploration and production operations' PTOI, driven by lower oil prices and higher costs versus the prior period and favorable net incurred losses attributable to prior years in 2014 related to an internal reinsurance program that did not recur.

Revenues for the three months ended March 31, 2015 were $104 million, a decrease of $340 million from the same period in 2014. The major components of revenues are net premium earned, net investment (loss) income, net realized gains, and fee and other revenues.
Net premium earned for the three months ended March 31, 2015 was $46 million, a decrease of $3 million from the same period in 2014.

Net investment (loss) income for the three months ended March 31, 2015 was ($68) million versus $206 million in the same period in 2014. The decrease primarily reflects lower valuations in LP and LLC private equity investments, primarily due to prior year IPO activity that did not recur as well as lower valuations in the energy sector.

Net realized gains for the three months ended March 31, 2015 were $35 million, a decrease of $15 million from the same period in 2014. The decrease primarily reflects gains on sales of equity investments and a sale in the energy sector in 2014 that did not recur.

Fee and other revenues for the three months ended March 31, 2015 were $91 million, a decrease of $48 million from the same period in 2014. The decrease was primarily driven by lower oil and gas revenues as a result of lower prices.

Claims, benefits and expenses for the three months ended March 31, 2015 were $335 million, an increase of $71 million over the same period in 2014. The increase was driven by higher depreciation related to Liberty Energy and favorable incurred losses attributable to prior years in 2014 related to an internal reinsurance program that did not recur.

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 leveraged 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 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, 2015 and December 31, 2014:

$ in Millions	**As of March 31, 2015**		**As of December 31, 2014**	
Invested Assets by Type	**Carrying Value**	**% of Total**	**Carrying Value**	**% of Total**
Fixed maturities, available for sale, at fair value	$63,971	80.2%	$64,081	80.3%
Equity securities, available for sale, at fair value	3,253	4.1	3,145	3.9
LPs, LLCs and other equity method investments	4,645	5.8	4,752	6.0
Commercial mortgage loans	1,955	2.4	1,808	2.3
Short-term investments	589	0.7	626	0.8
Other investments	727	0.9	640	0.8
Cash and cash equivalents	4,670	5.9	4,716	5.9
Total invested assets	$79,810	100.0%	$79,768	100.0%

Total invested assets as of March 31, 2015 were $79.810 billion, an increase of $42 million or 0.1% over December 31, 2014. The increase reflects the favorable impact of declining treasury yields, positive equity market performance and new commercial mortgage loan investments. This was partially offset by the impact of the strengthening U.S. dollar, sales of fixed maturities to fund operational activities and foreign exchange driven other-than-temporary impairments on certain Venezuelan fixed maturity securities.

Fixed maturities as of March 31, 2015 were $63.971 billion, a decrease of $110 million or 0.2% from December 31, 2014. The decrease reflects sales for funding of operational activities, the impact of the strengthening U.S. dollar, and foreign exchange driven other-than-temporary impairments on certain Venezuelan securities, partially offset by the favorable impact of declining treasury yields. As of March 31, 2015, included in fixed maturities are commitments to purchase various residential mortgage-backed securities at a cost of $381 million and fair value of $383 million, and various corporate and municipal securities at a cost of $253 million and fair value of $254 million.

Equity securities available for sale as of March 31, 2015 were $3.253 billion ($2.890 billion common stock and $363 million preferred stock) versus $3.145 billion as of December 31, 2014 ($2.790 billion common stock and $355 million preferred stock), an increase of $108 million or 3.4% over December 31, 2014. Of the $2.890 billion of common stock at March 31, 2015, $461 million relates to securities associated with non-guaranteed unit linked products where the policyholder bears the investment risk. The increase in total equity securities available for sale was primarily due to positive market performance.

LPs, LLCs and other equity method investments as of March 31, 2015 were $4.645 billion, a decrease of $107 million or 2.3% from December 31, 2014. These investments consist of traditional private equity partnerships of $2.073 billion, natural resources partnerships of $756 million ($540 million related to energy investments), real estate partnerships of $453 million, other partnerships of $1.078 billion, and other equity method investments of $285 million. The decrease reflects distributions received, energy related value declines, and the impact of the strengthening U.S. dollar, partially offset by other net increases in valuation. The Company's investments in LPs, LLCs and other equity method investments 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.

Commercial mortgage loans as of March 31, 2015 were $1.955 billion (net of $13 million of loan loss reserves or 0.68% of the outstanding loan portfolio), an increase of $147 million or 8.1% over December 31, 2014. The increase primarily reflects $187 million in funding, partially offset by $40 million in principal reductions. The entire commercial loan portfolio is U.S. based. As of March 31, 2015, the average total loan size was $2 million and the average loan participation size was less than $1 million. The number of loans in the portfolio increased from 4,509 at December 31, 2014 to 4,582 at March 31, 2015.

Short-term investments as of March 31, 2015 were $589 million, a decrease of $37 million or 5.9% over December 31, 2014. The decrease reflects sales and maturities of short-term holdings across the Company's International operations.

Cash and cash equivalents as of March 31, 2015 were $4.670 billion, a decrease of $46 million or 1.0% from December 31, 2014. The decrease was primarily related to net cash used for operating activities.

As of March 31, 2015, the Company had unfunded commitments in traditional private equity partnerships, natural resources, real estate, and other of $1.357 billion, $2.693 billion (all of which is related to energy investments), $827 million, and $872 million, respectively.

Regarding fair value measurements, as of March 31, 2015, excluding other assets, the Company reflected $5.240 billion (7.7%) 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, 2015 the Company reported $61.143 billion (89.4%) as level 2, consisting primarily of various fixed maturity securities. Finally, the Company reported $1.976 billion (2.9%) 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, 2015, no single issuer, excluding U.S. Treasuries, agency securities and mortgage-backed securities, accounted for more than 0.8% of invested assets. As of March 31, 2015, investments in the energy sector accounted for $3.164 billion or 4.0% of total invested assets. These investments consist of investment grade bonds of $2.088 billion, bonds that were rated below investment grade of $287 million, publicly traded equity securities of $175 million, and natural resources partnerships and other equity method investments of $614 million. In addition, the Company has direct investments in oil and gas wells of $1.713 billion which are included in other assets on the Consolidated Balance Sheets. Unfunded energy investment commitments as of March 31, 2015 were $2.693 billion, of this, $767 million and $1.926 billion are related to natural resources partnerships and direct investments in oil and gas wells, respectively.

The following tables summarize the Company's available for sale portfolio by security type as of March 31, 2015 and December 31, 2014:

$ in Millions March 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agency securities	$2,944	$200	($3)	$3,141
Residential MBS [1]	7,952	306	(10)	8,248
Commercial MBS	1,545	50	(1)	1,594
Other MBS and ABS [2]	2,924	88	(5)	3,007
U.S. state and municipal	13,006	986	(17)	13,975
Corporate and other	27,043	1,884	(99)	28,828
Foreign government securities	4,905	296	(23)	5,178
Total fixed maturities	60,319	3,810	(158)	63,971
Common stock	2,207	734	(51)	2,890
Preferred stock	393	20	(50)	363
Total equity securities	2,600	754	(101)	3,253
Total securities available for sale	$62,919	$4,564	($259)	$67,224

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

$ in Millions December 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agency securities	$2,944	$193	($10)	$3,127
Residential MBS	7,921	281	(24)	8,178
Commercial MBS	1,483	36	(9)	1,510
Other MBS and ABS	2,855	76	(14)	2,917
U.S. state and municipal	13,020	962	(18)	13,964
Corporate and other	26,998	1,661	(146)	28,513
Foreign government securities	5,629	273	(30)	5,872
Total fixed maturities	60,850	3,482	(251)	64,081
Common stock	2,210	638	(58)	2,790
Preferred stock	393	20	(58)	355
Total equity securities	2,603	658	(116)	3,145
Total securities available for sale	$63,453	$4,140	($367)	$67,226

The following table summarizes the Company's mortgage and asset-backed fixed maturity portfolio by credit quality as of March 31, 2015:

$ in Millions	As of March 31, 2015							
Mortgage & Asset-Backed Fixed Maturities by Credit Quality[1]	**AAA**	**AA**	**A**	**BBB**	**BB**	**B or Lower**	**Total**	**% of Total**
SBA loans	$2,303	$-	$-	$-	$-	$-	$2,303	17.9%
GNMA residential mortgage	3,524	5	-	-	-	-	3,529	27.5
FNMA residential mortgage	2,364	-	-	-	-	-	2,364	18.4
FHLMC residential mortgage	2,034	-	-	-	-	-	2,034	15.8
Prime residential mortgage	23	-	1	2	9	128	163	1.3
Alt-A residential mortgage	-	9	-	-	7	110	126	1.0
Sub-prime residential mortgage	9	-	-	2	4	17	32	0.2
Commercial MBS	1,508	44	-	42	-	-	1,594	12.4
Non-mortgage ABS	369	-	66	259	2	8	704	5.5
Total	$12,134	$58	$67	$305	$22	$263	$12,849	100.0%
% of Total	94.4%	0.5%	0.5%	2.4%	0.2%	2.0%	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 94% of the holdings are rated AAA. The commercial mortgage-backed securities portfolio is well diversified and of high quality with approximately 95% rated AAA.

The following table summarizes the Company's allocation of fixed maturities by credit quality as of March 31, 2015 and December 31, 2014:

$ in Millions	As of March 31, 2015		As of December 31, 2014	
Fixed Maturities by Credit Quality[1]	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
AAA	$20,857	32.6%	$20,988	32.8%
AA+, AA, AA-	11,172	17.5	10,983	17.1
A+, A, A-	15,413	24.1	15,660	24.4
BBB+, BBB, BBB-	12,167	19.0	11,919	18.6
Total investment grade	59,609	93.2	59,550	92.9
BB+, BB, BB-	1,503	2.3	1,478	2.3
B+, B, B-	1,647	2.6	1,605	2.5
CCC or lower	1,212	1.9	1,448	2.3
Total below-investment grade	4,362	6.8	4,531	7.1
Total fixed maturities	$63,971	100.0%	$64,081	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, 2015, consistent with December 31, 2014. The Company's allocation to below-investment grade (fixed maturities with an average credit rating below BBB-) securities was approximately 7% at March 31, 2015, consistent with December 31, 2014. The Company's holdings of below investment grade securities primarily consist of an actively managed diversified portfolio of high yield securities and leveraged 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. Overall, the average credit quality rating stands at A+ as of March 31, 2015.

The following table summarizes available for sale fixed maturity securities by contractual maturity at March 31, 2015 and December 31, 2014. 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, 2015		As of December 31, 2014	
Fixed Maturities by Maturity Date	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
One year or less	$3,323	5.2%	$3,632	5.7%
Over one year through five years	16,903	26.4	17,455	27.2
Over five years through ten years	17,431	27.2	17,539	27.4
Over ten years	13,465	21.1	12,850	20.0
MBS and ABS	12,849	20.1	12,605	19.7
Total fixed maturities	$63,971	100.0%	$64,081	100.0%

During 2015, 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, 2015 and 2014:

$ in Millions	Three Months Ended March 31,	
Net Investment Income	**2015**	**2014[1]**
Taxable interest income	$551	$559
Tax-exempt interest income	100	108
Dividends	14	14
LP, LLC and other equity method (loss) income	(17)	237
Commercial mortgage loans	26	22
Other investment income	5	4
Gross investment income	679	944
Investment expenses[2]	(42)	(36)
Net investment income	$637	$908

[1]The above table contains net investment income attributable to discontinued operations of $14 million for the three months ended March 31, 2014.
[2]Fees paid to external managers are included within the components of gross investment income.

Net investment income for the three months ended March 31, 2015 was $637 million, a decrease of $271 million from the same period in 2014. The decrease was largely a result of lower valuations in LP and LLC private equity investments, primarily due to prior year IPO activity that did not recur as well as lower valuations in the energy sector.

Net Realized Gains (Losses)

The following tables summarize the Company's net realized gains (losses) for the three months ended March 31, 2015 and 2014:

$ in Millions **Net Realized Gains (Losses)**	**Sales & Dispositions**	**Impairments**	**Change in Derivatives Value**	**Total**
Three Months Ended March 31, 2015:				
Fixed maturities	($24)	($134)	$-	($158)
Equities	35	(6)	-	29
Other	(8)	(8)	7	(9)
Total	$3	($148)	$7	($138)
Three Months Ended March 31, 2014:				
Fixed maturities	($4)	($255)	$-	($259)
Equities	48	(1)	-	47
Other	12	(5)	-	7
Total	$56	($261)	$-	($205)

$ in Millions	**Three Months Ended March 31,**	
Components of Net Realized Gains (Losses)	**2015**	**2014**
Fixed maturities:		
Gross realized gains	$35	$30
Gross realized losses	(193)	(289)
Equities:		
Gross realized gains	51	52
Gross realized losses	(22)	(5)
Other:		
Gross realized gains	11	40
Gross realized losses	(20)	(33)
Total net realized losses	($138)	($205)

Net realized losses for the three months ended March 31, 2015 were $138 million versus $205 million in the same period in 2014. The decrease in net losses relates to lower impairment losses recognized on certain Venezuelan securities in 2015 as compared to the impairment losses recognized as a result of the change in the Venezuela currency exchange rate used for remeasurement purposes in 2014.

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, 2015 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	($1)	$254	($2)	$317
Residential MBS	(4)	870	(6)	449
Commercial MBS	-	98	(1)	144
Other MBS and ABS	(2)	438	(3)	412
U.S. state and municipal	(8)	622	(9)	148
Corporate and other	(72)	2,169	(27)	810
Foreign government securities	(7)	495	(16)	452
Total fixed maturities	(94)	4,946	(64)	2,732
Common stock	(44)	335	(7)	32
Preferred stock	-	6	(50)	257
Total equity securities	(44)	341	(57)	289
Total securities available for sale	($138)	$5,287	($121)	$3,021

Unrealized losses decreased from $367 million as of December 31, 2014 to $259 million as of March 31, 2015 primarily related to a decrease in treasury yields. Unrealized losses less than 12 months decreased from $156 million at December 31, 2014 to $138 million as of March 31, 2015. Unrealized losses 12 months or longer decreased from $211 million as of December 31, 2014 to $121 million as of March 31, 2015. Of the $7 million unrealized losses 12 months or longer on common stock, $2 million relates to securities associated with non-guaranteed unit linked products where the policyholder bears the investment risk. As of March 31, 2015, there were 752 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, 2015, the Company recorded $134 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 certain Venezuelan securities as other-than-temporarily impaired. The Company has concluded that the remaining gross unrealized losses of fixed maturity securities as of March 31, 2015 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, 2015 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, 2015, the Company recorded $6 million in impairment losses on equity securities. The Company has concluded that the gross unrealized losses of equity securities as of March 31, 2015 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, 2015 (including cash and cash equivalents) totaled $79.810 billion.

Debt outstanding as of March 31, 2015 and December 31, 2014 was as follows:

Current maturities of long-term debt:

$ in Millions	**As of March 31, 2015**	**As of December 31, 2014**
Current maturities of long-term debt	$ -	$ -

Long-term debt:

$ in Millions	**As of March 31, 2015**	**As of December 31, 2014**
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]	196	196
6.50% Notes, due 2042	750	750
4.85% Notes, due 2044	1,050	1,050
7.697% Surplus notes, due 2097	260	260
Subtotal	7,246	7,246
Unamortized discount	(14)	(14)
Total long-term	$7,232	$7,232

[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

On March 5, 2015, LMGI amended and restated its unsecured revolving credit facility from $750 million to $1 billion with an expiration date of March 5, 2020. This facility backs the Company's $750 million commercial paper program that is guaranteed by Liberty Mutual Insurance Company ("LMIC"). As of March 31, 2015, there was no commercial paper or borrowings outstanding on the facility.

On December 31, 2014, Berkeley/St. James Real Estate LLC paid off its five-year mortgage loan in the amount of $47 million. The mortgage loan was originally $50 million with a maturity date of January 1, 2015.

On July 24, 2014 and October 31, 2014, LMGI issued $750 million and $300 million, respectively, of Senior Notes due 2044 (the "2044 Notes"). Interest is payable semi-annually at a fixed rate of 4.85%. The 2044 Notes mature on August 1, 2044.

On July 1, 2014, LMIC entered into a one-year renewable $1 billion repurchase agreement which terminates July 2, 2015 unless renewed. To date, no funds have been borrowed under the facility.

On December 20, 2012, LMIC entered into a three-year $1 billion repurchase agreement which terminates on December 20, 2015. As of March 31, 2015, there are no borrowings outstanding on 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, 2015, 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, 2015 was $110 million, an increase of $6 million over the same period in 2014. The increase in interest expense reflects the debt issuances in 2014, partially 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 at the holding company, LMGI. However, the subsidiaries are separate and distinct legal entities and have no obligation to make

funds available to LMGI, whether in the form of loans, dividends or other distributions. As of March 31, 2015, LMGI had $6.316 billion of debt outstanding, excluding discount.

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, 2014) and 2015 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	**2014**	**2013**	**2015**	**2015**
LMIC	514%	474%	$1,614	$16
LMFIC	485%	453%	115	$4
EICOW	467%	427%	112	-

[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, 2015. Available dividend capacity as of March 31, 2015 is calculated as 2015 dividend capacity less dividends paid for the preceding 12 months. Dividends paid April 1, 2014 through March 31, 2015 for LMIC, LMFIC and EICOW were $65 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 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, 2015, LCS recorded $74 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 to regards policyholders for the combined operations of LMIC and its U.S affiliates, including international branches, was $18.914 billion and $19.180 billion at March 31, 2015 and December 31, 2014, respectively. The decrease in surplus primarily reflects affiliated unrealized losses of $714 million, a reduction to other changes in surplus of $273 million and unaffiliated unrealized losses of $15 million, partially offset by net income of $736 million (the sum of earnings from the Company's 56 domestic property-casualty insurance companies and dividends from subsidiaries). Other changes in surplus is primarily driven by goodwill amortization expense, net deferred tax assets, foreign exchange and dividends to stockholders, partially offset by 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

Effective January 1, 2015, the Company adopted the FASB issued ASU 2014-01, *Accounting for Investments in Qualified Affordable Housing Projects ("*ASU 2014-01*")*. This guidance, as codified in Accounting Standards Codification ("ASC") 323, *Investments—Equity Method and Joint Ventures*, allows entities that invest in certain qualified affordable housing projects through limited liability entities the option to account for these investments using the proportional amortization method if certain conditions are met. Under the proportional amortization method, the entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense or benefit. The impact of adoption was not material to the Company's results of operations and financial position.

Effective January 1, 2015, the Company elected to adopt the FASB issued ASU 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists ("*ASU 2013-11*"),* providing accounting guidance regarding the presentation of an unrecognized tax benefit. The new guidance requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. However, to the extent tax carryforwards are not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit will be presented in the financial statements as a liability and will not be combined with the related deferred tax asset. There was no material impact on the Company's financial statements as a result of this accounting guidance.

The Company has not adopted any other material accounting standards through the first quarter of 2015.

Accounting Standards Not Yet Adopted

The Company will adopt the FASB issued ASU 2015-02, *Amendments to the Consolidation Analysis* ("ASU 2015-02"). This guidance is aimed at asset managers, all reporting entities involved with limited partnerships or similar entities will have to re-evaluate these entities for consolidation and revise their documentation. In some cases, consolidation conclusions will change. In other cases, reporting entities will need to provide additional disclosures about entities that currently are not considered variable interest entities ("VIEs") but will be considered VIEs under the new guidance when they have a variable interest in those VIEs. Regardless of whether conclusions change or additional disclosure requirements are triggered, reporting entities will need to re-evaluate limited partnerships or similar entities for consolidation and revise their documentation. This update is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. For all other entities, this update is

effective for fiscal years beginning after December 15, 2016, and for interim periods within fiscal years beginning after December 15, 2017. The adoption of this ASU is not expected to have an effect on the Company's results of operations and financial position, but changes to the Company's disclosures on VIEs will likely be required.

There are no other 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 $49.919 billion and $50.388 billion as of March 31, 2015 and December 31, 2014, 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 A&E reserves for unpaid claims and claim adjustment expenses, net of reinsurance before the NICO Reinsurance Transaction and including uncollectible reinsurance, were $1.080 billion and $1.225 billion as of March 31, 2015 and December 31, 2014, respectively.

In the third quarter of 2014, 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 A&E 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. A&E 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 $111 million including: $83 million of asbestos reserves, primarily associated with increased defense costs, and $28 million of pollution reserves.

All A&E 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 A&E 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 A&E 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 $13.842 billion and $13.986 billion at March 31, 2015 and December 31, 2014, respectively, net of allowance for doubtful accounts of $148 million and $149 million, respectively. Included in these balances are $592 million and $548 million of paid recoverables and $13.398 billion and $13.587 billion of unpaid recoverables, respectively.

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.

In 2014, the Company entered into the NICO Reinsurance Transaction with NICO, a subsidiary of Berkshire Hathaway Inc., on a combined aggregate excess of loss agreement for substantially all of the Company's U.S. workers compensation (pre-2014 accident year) and A&E liabilities, attaching at approximately $12.5 billion of combined aggregate reserves, with an aggregate limit of $6.5 billion and sublimits of $3.1 billion for A&E liabilities and approximately $4.5 billion for certain workers compensation liabilities. At the closing of the NICO Reinsurance Transaction, but effective as of January 1, 2014, the Company ceded approximately $3.3 billion of existing liabilities under this retroactive reinsurance agreement. NICO will provide approximately $3.2 billion of additional aggregate adverse development cover. The Company paid NICO total consideration of approximately $3.0 billion.

In general terms, the covered business includes post December 31, 2013 development on: (1) A&E liabilities arising under policies of insurance and reinsurance with effective dates prior to January 1, 2005; and (2) workers compensation liabilities arising out of policies on the books of the Company's Commercial Insurance SBU as of December 31, 2013, as respects injuries or accidents occurring prior to January 1, 2014.

The NICO Reinsurance Transaction is accounted for as retroactive reinsurance in the Company's GAAP Consolidated Financial Statements.

The following table displays the impact of the NICO Reinsurance Transaction on the Consolidated Statements of Income (amounts in millions):

Amounts ceded under NICO Reinsurance Transaction	**Three months ended March 31, 2015**	**Twelve months ended December 31, 2014**
Unrecognized reinsurance benefit related to original transaction loss at the beginning of the period	$ 43	$128
A&E unfavorable development	-	111
Workers compensation favorable development	(7)	(26)
Total amounts ceded under NICO Reinsurance Transaction	(7)	85
Retroactive reinsurance reductions/(benefits) recognized into income	7	(85)
Pre-tax impact of unrecognized deferred retroactive reinsurance benefit	-	-
Unrecognized reinsurance benefit related to original transaction loss at the end of the period	$ 50	$ 43

Once the aggregate of workers compensation and A&E development exceeds the original pre-tax loss of $128 million, deferred gains will be recorded. Deferred gains are subsequently amortized into earnings over the period when underlying claims are settled.

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 contract, 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.

The above aggregate stop loss program resulted in deferred gains that are amortized into income using the effective interest method over the estimated settlement period.

As of March 31, 2015, and December 31, 2014, deferred gains were $8 million and $8 million, respectively, and are included in other liabilities within the accompanying Consolidated Balance Sheets. Interest credited to the funds held balances for the three months ended March 31, 2015 and 2014 was zero and $1 million, respectively. Deferred gain amortization the three months ended March 31, 2015 and 2014 was zero and $1 million, respectively. Reinsurance recoverables related to these transactions, including experience related profit accruals, were $63 million and $64 million as of March 31, 2015 and December 31, 2014, respectively.

In 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 were collateralized. Such collateral was provided by Mystic III using proceeds from the issuance of certain catastrophe bonds. The reinsurance agreements provided coverage based on actual reported losses by the Company and its affiliates. The 2012 reinsurance agreement terminated on March 5, 2015. Since no recoveries were recorded under this program, the associated collateral was released.

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 securities, equity securities and other investments 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.

Variable Interest Entities

The Company invests in limited partnerships and other entities subject to VIE analysis under the VIE subsections of 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, 2015 the Company has determined that it is the primary beneficiary of two VIEs in the low-income housing tax credit sector, and as such, these VIEs have 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 VIEs as of March 31, 2015 and December 31, 2014 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 $369 million and $373 million as of March 31, 2015 and December 31, 2014, respectively, and the Company’s maximum exposure to loss was $647 million and $665 million as of March 31, 2015 and December 31, 2014, 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 $3.214 billion and $3.170 billion as of March 31, 2015 and December 31, 2014, 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 $4.798 billion and $4.834 billion as of March 31, 2015 and December 31, 2014, 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.

As of August 31, 2014, the Company utilized a qualitative test in accordance with its accounting policy for all reporting units except Liberty International, for which a quantitative test was being utilized due to the Venezuelan devaluation recognized during the year. As a result of the Company’s Liberty Mutual Benefits realignment, the Company performed a relative fair value assessment in order to reallocate the existing goodwill to the SBUs based on June 30, 2014 results. In conjunction with the reallocation, the Company performed a quantitative impairment assessment of goodwill for each of the impacted SBUs.

Deferred Income Taxes

The net deferred tax asset was $316 million and $550 million as of March 31, 2015 and December 31, 2014, net of a valuation allowance of $127 million and $141 million, respectively. Prior period amounts have been updated to reflect the 2015 adoption of ASU 2014-01 related to qualified affordable housing projects. 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 and current year utilization of net operating losses.

The overall decrease in the valuation allowance is primarily due to currency translation adjustments. 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 basis 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, intangibles, and fixed assets.
A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (amounts in millions):

Balance as of December 31, 2014	$182
Additions based on tax positions related to current year	1
Additions for tax positions of prior years	2
Reductions for tax positions of prior years	(7)
Settlements	(2)
Translation	(5)
Balance as of March 31, 2015	$171

Included in the tabular roll forward of unrecognized tax benefits is interest and penalties in the amount of $51 million and $51 million as of March 31, 2015 and December 31, 2014, respectively.

Included in the balance as of March 31, 2015, is $76 million related to tax positions that would impact the effective tax rate.

The Company recognizes interest and penalties related to unrecognized tax benefits in U.S. Federal, state, and foreign income tax expense. For the three months ended March 31, 2015 and 2014, the Company recognized $0 and $3 million of interest and penalties in each period. The Company had $61 million and $59 million of interest and penalties accrued as of March 31, 2015 and December 31, 2014, respectively.

The IRS has completed its review of the Company's U.S. Federal income tax returns through the 2005 tax year and is currently reviewing income tax returns for the 2006 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.

The Company believes that the range of reasonably possible changes to the balance of unrecognized tax benefits could decrease by $0 to $50 million within the next twelve months as a result of potential settlements with the IRS for prior years.

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 postretirement healthcare and life insurance benefits 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 2014 direct written premium. The Company also ranks 76th on the Fortune 100 list of largest corporations in the U.S. based on 2013 revenue. As of December 31, 2014, LMHC had $124.293 billion in consolidated assets, $104.002 billion in consolidated liabilities, and $39.631 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 the SBUs, 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.