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

Quarter Ended June 30, 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 and six months ended June 30, 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, June 30, 2015 Unaudited Consolidated Financial Statements and Second 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 June 30, 2015 - Consolidated Results of Operations

- Revenues for the three months ended June 30, 2015 were $10.380 billion, an increase of $432 million or 4.3% over the same period in 2014.
- Net written premium ("NWP") for the three months ended June 30, 2015 was $9.727 billion, an increase of $545 million or 5.9% over the same period in 2014.
- Net investment income for the three months ended June 30, 2015 was $726 million, a decrease of $79 million or 9.8% from the same period in 2014.
- Pre-tax operating income ("PTOI") for the three months ended June 30, 2015 was $171 million, a decrease of $382 million or 69.1% from the same period in 2014.
- Catastrophe losses for the three months ended June 30, 2015 were $800 million, an increase of $125 million or 18.5% 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 $81 million in 2015 compared to a pre-tax gain of $92 million in the same period in 2014.
- Net operating income for the three months ended June 30, 2015 was $115 million, a decrease of $263 million or 69.6% from the same period in 2014.
- Net income attributable to LMHC for the three months ended June 30, 2015 was $254 million, a decrease of $137 million or 35.0% from 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 June 30, 2015 was 93.0%, an increase of 1.1 points over the same period in 2014. Including the impact of catastrophes and net incurred losses attributable to prior years (primarily Ireland), the Company's combined ratio for the three months ended June 30, 2015 increased 2.1 points to 102.4%.
- Cash flow from operations for the three months ended June 30, 2015 was $855 million, a decrease of $323 million or 27.4% from 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, Chile floods, Hailstorm Ela, Cyclone Niklas and New South Wales severe storms. 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.

Six Months Ended June 30, 2015 - Consolidated Results of Operations

- Revenues for the six months ended June 30, 2015 were $20.060 billion, an increase of $450 million or 2.3% over the same period in 2014.
- NWP for the six months ended June 30, 2015 was $19.126 billion, an increase of $1.158 billion or 6.4% over the same period in 2014.
- Net investment income for the six months ended June 30, 2015 was $1.363 billion, a decrease of $336 million or 19.8% from the same period in 2014.
- PTOI for the six months ended June 30, 2015 was $724 million, a decrease of $501 million or 40.9% from the same period in 2014.
- Catastrophe losses for the six months ended June 30, 2015 were $1.296 billion, an increase of $134 million or 11.5% 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 $244 million in 2015 compared to a pre-tax loss of $183 million in the same period in 2014.
- Net operating income for the six months ended June 30, 2015 was $541 million, a decrease of $389 million or 41.8% from the same period in 2014.
- Net income attributable to LMHC for the six months ended June 30, 2015 was $530 million, a decrease of $126 million or 19.2% from the same period in 2014.
- The consolidated combined ratio before catastrophes and net incurred losses attributable to prior years for the six months ended June 30, 2015 was 92.9%, no change compared to the same period in 2014. Including the impact of catastrophes and favorable net incurred losses attributable to prior years (primarily a one-time benefit as a result of a reduction in the estimated liability for state assessments related to workers compensation), the Company's combined ratio for the six months ended June 30, 2015 improved 0.1 point to 99.8%.
- Cash flow from operations for the six months ended June 30, 2015 was $1.583 billion, an increase of $87 million or 5.8% over the same period in 2014.

Financial Condition as of June 30, 2015

- Total assets were $125.096 billion as of June 30, 2015, an increase of $803 million or 0.6% over December 31, 2014.
- Total equity was $19.942 billion as of June 30, 2015, a decrease of $349 million or 1.7% from December 31, 2014.

Subsequent Events

On July 23, 2015, the Company sold its Quinn-direct branded private motor book in Great Britain to Chaucer Insurance Services Ltd.

On July 13, 2015, the Company announced expansion of its presence in Chile by agreeing to acquire an additional insurance company, Compañia de Seguros Generales Penta Security S.A., the fourth largest non-life insurer in Chile. The transaction is subject to the approval of the insurance regulator.

Effective July 2, 2015, Liberty Mutual Insurance Company ("LMIC") renewed its $1 billion repurchase agreement for a two-year period, which terminates July 3, 2017 unless extended. To date, no funds have been borrowed under the facility.

On July 1, 2015, the Company completed the acquisition of Hughes Insurance, an independent insurance broker in Northern Ireland. Further discussion can be found in the Consolidated Results of Operations section.

CONSOLIDATED RESULTS OF OPERATIONS

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

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

On June 25, 2015, the Company announced its plans to withdraw from the personal motor insurance market in Great Britain ("GB") and make significant changes to its operations in Ireland. On July 23, 2015, the Company sold its GB personal motor book of business to Chaucer Insurance Services Ltd. The Company will now focus on the Republic of Ireland market and plans to transfer the customer management of its Northern Ireland policies on renewal to Hughes Insurance Services Limited. Costs associated with this restructuring are included in the Consolidated Financial Statements.

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, an independent insurance broker in Northern Ireland, in a transaction which closed on July 1, 2015. 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. Hughes Insurance has been reflected in the Consolidated Financial Statements since the second quarter of 2014.

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.

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 operations in Venezuela have been operating in a hyperinflationary economy with restrictive foreign exchange controls imposed by the Venezuelan government.

On February 10, 2015, the Venezuelan government published changes to its foreign exchange controls, which now maintains a three-tiered system. The new exchange controls retained the CENCOEX, or "official" rate, however, the new exchange controls merged SICAD II into SICAD I, now referred to as SICAD. Additionally, the new exchange controls established the Marginal Foreign Exchange System ("SIMADI"), which is intended to be a free floating rate. As of June 30, 2015, the exchange rate of bolivars per U.S. dollar for CENCEOX, SICAD and SIMADI was 6.3, 12.8, and 198, respectively. The Company uses the SICAD rate, consistent with promulgated guidance, to remeasure its Venezuelan subsidiary's financial statements.

The implementation of the government's foreign exchange controls is having an adverse impact on the Company's operations due to an inability to obtain U.S. dollars and the resulting hyperinflationary environment. As a result of the hyperinflationary accounting, the Company remeasures the monetary balance sheet items and operating results of its Venezuelan subsidiary from the bolivar into U.S. dollars based on the applicable government prescribed exchange rate with gains or losses included in income.

We believe that significant uncertainty exists regarding the exchange mechanisms in Venezuela, including the nature of transactions that are eligible to flow through CENCOEX, SICAD or SIMADI, or any other new exchange mechanisms that may emerge, how any such mechanisms will operate in the future, as well as the availability of U.S. dollars under each mechanism. A need to deconsolidate the Company's Venezuelan subsidiary's operations may result from a lack of exchangeability of bolivar-denominated cash, coupled with Management's inability to make key operational decisions due to government restrictions in Venezuela. The Company will continue to monitor factors, such as its ability to access exchange mechanisms and the increasingly negative effect government restrictions are having on operations (including our ability to manage capital structure, price products, settle claims, and effectively mitigate risk), and will take the appropriate action if these factors are to worsen.

For the six months ended June 30, 2015, the Company recognized a net $41 million loss in PTOI from remeasuring its monetary assets and liabilities ($57 million), the net gain from the earn-through of unearned premium, depreciation, and amortization of deferred acquisition costs at historical rates ($26 million) and the amortization of basis on certain investments ($10 million). The Company also recognized a $203 million pre-tax realized loss due to impairments and foreign exchange losses on certain Venezuela investments. As of June 30, 2015, the Company's Venezuelan subsidiary had GAAP equity of approximately $750 million, which could be impacted by future devaluations.

For the six months ended June 30, 2014, the Company recognized a net $71 million gain in PTOI comprised of a net loss from remeasuring its monetary assets and liabilities ($132 million), the net gain from the earn-through of unearned premium, depreciation, and amortization of deferred acquisition costs at historical rates ($211 million) and the amortization of basis on certain investments ($8 million). The Company also recognized a $254 million pre-tax realized loss due to impairments and foreign exchange losses on certain Venezuela investments. In total, the Company recognized a pre-tax loss of $183 million in the Consolidated Statements of Income as well as a reduction of $128 million in other comprehensive income.

For the three months ended June 30, 2015, the Company recognized a net $52 million loss in PTOI from remeasuring its monetary assets and liabilities ($57 million), the net gain from the earn-through of unearned premium, depreciation, and amortization of deferred acquisition costs at historical rates ($10 million) and the amortization of basis on certain investments ($5 million). The Company also recognized a $29 million pre-tax realized loss due to impairments and foreign exchange losses on certain Venezuela investments.

For the three months ended June 30, 2014, the Company recognized a net $92 million gain in PTOI from remeasuring its monetary assets and liabilities ($6 million), the net gain from the earn-through of unearned premium, depreciation, and amortization of deferred acquisition costs at historical rates ($105 million) and the amortization of basis on certain investments ($7 million).

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 June 30,			Six Months Ended June 30,		
$ in Millions	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Private passenger automobile	$3,536	$3,237	9.2%	$6,945	$6,351	9.4%
Homeowners	1,561	1,493	4.6	2,826	2,695	4.9
Specialty insurance	846	888	(4.7)	1,743	1,631	6.9
Commercial multiple-peril / fire	662	634	4.4	1,244	1,250	(0.5)
Workers compensation - Voluntary	553	525	5.3	1,078	1,079	(0.1)
Workers compensation - Involuntary	19	41	(53.7)	47	79	(40.5)
Commercial automobile	505	464	8.8	1,031	931	10.7
Global specialty reinsurance	249	257	(3.1)	769	777	(1.0)
Group disability and group life	415	346	19.9	821	688	19.3
General liability	360	362	(0.6)	691	700	(1.3)
Individual life and health	273	265	3.0	535	487	9.9
Surety	209	188	11.2	427	374	14.2
Global specialty inland marine	110	99	11.1	217	239	(9.2)
Other[1]	429	383	12.0	752	687	9.5
Total NWP[2]	$9,727	$9,182	5.9%	$19,126	$17,968	6.4%

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 and six months ended June 30, 2015 was $9.727 billion and $19.126 billion, respectively, increases of $545 million and $1.158 billion over the same periods in 2014. Significant changes by major line of business include:

- Private passenger automobile NWP increased $299 million and $594 million in the quarter and year, respectively. The increases reflect 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, partially offset by the foreign exchange impact of a stronger U.S. dollar.
- Homeowners NWP increased $68 million and $131 million in the quarter and year, respectively. The increases reflect rate and coverage increases as well as growth in homeowners policies in-force in Personal Insurance.
- Specialty insurance NWP decreased $42 million and increased $112 million in the quarter and year, respectively. The decrease in the quarter primarily reflects re-underwriting. The increase in the year primarily reflects program changes resulting from the centralization of external reinsurance purchasing.
- Commercial automobile NWP increased $41 million and $100 million in the quarter and year, respectively. The increases primarily reflect inflation in Venezuela.
- Group disability and group life NWP increased $69 million and $133 million in the quarter and year, respectively. The increases reflect strong new business sales.
- Individual life and health NWP increased $8 million and $48 million in the quarter and year, respectively. The increases reflect health premiums in Venezuela primarily due to inflation, partially offset by lower life-contingent structured settlement sales.
- Surety NWP increased $21 million and $53 million in the quarter and year, respectively. The increases primarily reflect improved contract surety program utilization and international growth (including Primero Fianzas acquisition in July 2014).

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 June 30,			Six Months Ended June 30,		
$ in Millions	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Personal Insurance	$4,277	$4,064	5.2%	$8,181	$7,776	5.2%
Commercial Insurance	2,359	2,277	3.6	4,563	4,475	2.0
Liberty International	1,746	1,452	20.2	3,261	2,736	19.2
Global Specialty	1,298	1,292	0.5	2,784	2,773	0.4
Corporate and Other	47	97	(51.5)	337	208	62.0
Total NWP	$9,727	$9,182	5.9%	$19,126	$17,968	6.4%
Foreign exchange effect on NWP change			(4.5)			(4.6)
NWP change excluding foreign exchange[1]			10.4%			11.0%

1 Determined by assuming constant foreign exchange rates between periods.

Major drivers of NWP growth were as follows:

	Three Months Ended June 30,				Six Months Ended June 30,			
$ in Millions	**2015**	**2014**	**$ Change**	**Points Attribution**	**2015**	**2014**	**$ Change**	**Points Attribution**
Total NWP[1]	$9,727	$9,182	$545	5.9	$19,126	$17,968	$1,158	6.4
Components of growth:								
Domestic personal automobile	2,461	2,364	97	1.1	4,973	4,728	245	1.4
-Domestic homeowners	1,543	1,469	74	0.8	2,785	2,640	145	0.8
-Homeowners quota share	(40)	(38)	(2)	-	(72)	(68)	(4)	-
Total domestic homeowners	1,503	1,431	72	0.8	2,713	2,572	141	0.8
International local businesses (ex foreign exchange)[2]	2,114	1,452	662	7.2	3,968	2,736	1,232	6.9
Specialty insurance (ex foreign exchange)[2]	883	895	(12)	(0.1)	1,833	1,645	188	1.0
Global specialty reinsurance (ex foreign exchange)[2]	259	257	2	-	809	777	32	0.2
Global specialty inland marine (ex foreign exchange)[2]	114	99	15	0.2	228	239	(11)	(0.1)
Domestic workers compensation	524	516	8	0.1	1,034	1,065	(31)	(0.2)
Domestic individual life	121	147	(26)	(0.3)	237	253	(16)	(0.1)
Domestic group disability and group life	313	247	66	0.7	613	492	121	0.7
Surety	209	188	21	0.2	427	374	53	0.3
Foreign exchange[2]	(410)	-	(410)	(4.5)	(830)	-	(830)	(4.6)
Other commercial lines	1,636	1,586	50	0.5	3,121	3,087	34	0.1
Total NWP	$9,727	$9,182	$545	5.9	$19,126	$17,968	$1,158	6.4

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 June 30,			Six Months Ended June 30,		
$ in Millions	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
U.S.	$7,283	$7,013	3.8%	$14,256	$13,658	4.4%
International[1]	2,444	2,169	12.7	4,870	4,310	13.0
Total NWP	$9,727	$9,182	5.9%	$19,126	$17,968	6.4%

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 June 30,			Six Months Ended June 30,		
$ in Millions	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Net operating income	$115	$378	(69.6%)	$541	$930	(41.8%)
Net realized gains (losses), net of tax	139	30	NM	(11)	(193)	(94.3)
Discontinued operations, net of tax	-	(17)	(100.0)	-	(81)	(100.0)
Net income attributable to LMHC	$254	$391	(35.0%)	$530	$656	(19.2%)

NM = Not Meaningful

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Revenues	$10,380	$9,948	4.3%	$20,060	$19,610	2.3%
PTOI before catastrophes, net incurred losses attributable to prior years, Venezuela devaluation and foreign exchange and LP, LLC and other equity method income	$963	$1,034	(6.9%)	$1,886	$1,939	(2.7%)
Catastrophes[1]	(800)	(675)	18.5	(1,296)	(1,162)	11.5
Net incurred losses attributable to prior years:						
- Asbestos & environmental[2]	(1)	(1)	-	(2)	(2)	-
- All other[3,4]	(7)	(21)	(66.7)	126	18	NM
Venezuela devaluation and foreign exchange	(52)	92	NM	(41)	71	NM
PTOI before LP, LLC and other equity method income	103	429	(76.0)	673	864	(22.1)
LP, LLC and other equity method income[5]	68	124	(45.2)	51	361	(85.9)
PTOI	171	553	(69.1)	724	1,225	(40.9)
Net realized gains (losses)	227	46	NM	89	(159)	NM
Pre-tax income	398	599	(33.6)	813	1,066	(23.7)
Income tax expense	149	196	(24.0)	292	344	(15.1)
Consolidated net income before discontinued operations	249	403	(38.2)	521	722	(27.8)
Discontinued operations, net of tax	-	(17)	(100.0)	-	(81)	(100.0)
Consolidated net income	249	386	(35.5)	521	641	(18.7)
Less: Net loss attributable to non-controlling interest	(5)	(5)	-	(9)	(15)	(40.0)
Net income attributable to LMHC	$254	$391	(35.0%)	$530	$656	(19.2%)
Cash flow provided by operations	$855	$1,178	(27.4%)	$1,583	$1,496	5.8%

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

2 Gross of the NICO Reinsurance Transaction.

3 The six months ended June 30, 2015 include 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 of $2 million and $4 million for the three and six months ended June 30, 2015 and ($14) million and $11 million for the same periods in 2014. Net of amortization of deferred gains on retroactive reinsurance of $1 million and $2 million for the three and six months ended June 30, 2015 and 2014.

5 LP, LLC and other equity method income is included in net investment income in the accompanying Consolidated Statements of Income.

NM = Not Meaningful

PTOI for the three and six months ended June 30, 2015 was $171 million and $724 million, respectively, decreases of $382 million and $501 million from the same periods in 2014. The decreases in both periods were driven by lower net investment income, as a result of lower changes in valuations in the energy sector, and higher current accident year catastrophe losses. The year was further impacted by lower changes in valuations in LP and LLC private equity investments, primarily due to prior year IPO activity that did not recur, partially offset by favorable net incurred losses attributable to prior years primarily as a result of a reduction in the estimated liability for state assessments related to workers compensation and increased underwriting profit in Commercial Insurance.

Revenues for the three and six months ended June 30, 2015 were $10.380 billion and $20.060 billion, respectively, increases of $432 million and $450 million over the same periods in 2014. The major components of revenues are net premium earned, net investment income, net realized gains (losses), and fee and other revenues.

Net premium earned for the three and six months ended June 30, 2015 was $9.105 billion and $17.975 billion, respectively, increases of $334 million and $575 million over the same periods in 2014. The increases primarily reflect the premium earned associated with the changes in NWP previously discussed and NWP growth during the last six months of 2014.

Net investment income for the three and six months ended June 30, 2015 was $726 million and $1.363 billion, respectively, decreases of $79 million and $336 million from the same periods in 2014. The decreases in both periods were a result of lower changes in valuations in the energy sector. The decrease in the year was also largely impacted by lower changes in valuations in LP and LLC private equity investments, primarily due to prior year IPO activity that did not recur.

Net realized gains (losses) for the three and six months ended June 30, 2015 were $227 million and $89 million, respectively, versus $46 million and ($159) million in the same periods in 2014. The increase in net realized gains in both periods was driven by equity sales that occurred in 2015, partially offset by impairment losses recognized as a result of the change in the Venezuela currency exchange rate. The year was further impacted by 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 and six months ended June 30, 2015 were $322 million and $633 million, respectively, decreases of $4 million and $37 million from the same periods in 2014. The decreases primarily reflect lower oil and gas revenues (in Corporate and Other) and lower fee income and commissions from servicing carrier operations, partially offset by higher fees associated with life policies and group disability (in Commercial Insurance).

Claims, benefits and expenses for the three and six months ended June 30, 2015 were $9.982 billion and $19.247 billion, respectively, increases of $633 million and $703 million over the same periods in 2014. The increases in both periods reflect losses and expenses consistent with business growth, higher current year catastrophe losses, unfavorable increases in claims severity in Venezuela (primarily due to inflation) and Ireland restructuring and incurred losses attributable to prior years. The increase in the year was partially offset by favorable incurred losses attributable to prior years driven by Venezuela and a reduction in the first quarter in the estimated liability for state assessments related to workers compensation.

Income tax expense on continuing operations for the three and six months ended June 30, 2015 was $149 million and $292 million, respectively, decreases of $47 million and $52 million from the same periods in 2014. The Company's effective tax rate on continuing operations for the three and six months ended June 30, 2015 was 37% and 36%, respectively, compared to 33% and 32% for the same periods in 2014. The increase in the effective tax rate on continuing operations from 2014 to 2015 is primarily due to non-deductible foreign impairments resulting from Venezuelan currency devaluation. The Company's effective tax rate on continuing operations differs from 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 restated 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 and six months ended June 30, 2015 was $254 million and $530 million, respectively, decreases of $137 million and $126 million from the same periods in 2014.

Cash flow from operations for the three and six months ended June 30, 2015 was $855 million and $1.583 billion, respectively, a decrease of $323 million and an increase of $87 million versus the same periods in 2014. The decrease in the quarter was driven by the timing of pension funding and higher loss payments in Personal Insurance. The increase in the year was primarily driven by a reduction in pension funding in 2015 compared to 2014.

	Three Months Ended June 30,			Six Months Ended June 30,		
CONSOLIDATED	**2015[1]**	**2014[1]**	**Change (Points)**	**2015[1]**	**2014[1]**	**Change (Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	61.0%	61.3%	(0.3)	61.4%	62.1%	(0.7)
Underwriting expense ratio	32.0	30.6	1.4	31.5	30.8	0.7
Subtotal	93.0	91.9	1.1	92.9	92.9	-
Catastrophes[2]	9.3	8.2	1.1	7.6	7.1	0.5
Net incurred losses attributable to prior years[3,4]	0.1	0.2	(0.1)	(0.7)	(0.1)	(0.6)
Total combined ratio[5]	102.4%	100.3%	2.1	99.8%	99.9%	(0.1)

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, Chile floods, Hailstorm Ela, Cyclone Niklas and New South Wales severe storms. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.
3 The six months ended June 30, 2015 include 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 less managed care income 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 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 and six months ended June 30, 2015 was 93.0% and 92.9%, respectively, an increase of 1.1 points and no change versus the same periods in 2014. The increases in the underwriting expense ratio for both periods were primarily driven by higher pension expenses, employee compensation and investments in technology. The quarter was further impacted by higher advertising expenses. The decreases in the claims and claim adjustment expense ratio for both periods were primarily driven by Commercial Insurance due to improved current accident year losses across most casualty lines of business and lower property losses, 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 and six months ended June 30, 2015 was 102.4% and 99.8%, respectively, an increase of 2.1 points and a decrease of 0.1 point versus the same periods in 2014. Both periods reflect the changes in

the combined ratio previously discussed and were futher impacted by higher current year catastrophe losses. The improvement in the year reflects favorable net incurred losses attributable to prior years primarily due to a reduction in the first quarter 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, more than 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.

Personal Insurance NWP by segment was as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Personal Lines	$2,425	$2,310	5.0%	$4,650	$4,417	5.3%
Safeco	1,852	1,754	5.6	3,531	3,359	5.1
Total NWP	$4,277	$4,064	5.2%	$8,181	$7,776	5.2%

Personal Insurance NWP by line of business was as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Private passenger automobile	$2,471	$2,366	4.4%	$4,907	$4,707	4.2%
Homeowners and other	1,806	1,698	6.4	3,274	3,069	6.7
Total NWP	$4,277	$4,064	5.2%	$8,181	$7,776	5.2%

NWP for the three and six months ended June 30, 2015 was $4.277 billion and $8.181 billion, respectively, increases of $213 million and $405 million over the same periods in 2014.

Private passenger automobile NWP for the three and six months ended June 30, 2015 was $2.471 billion and $4.907 billion, respectively, increases of $105 million and $200 million over the same periods in 2014. The growth reflects a 4.8% increase in average written premiums (resulting from rate and model year increases) and, to a lesser extent, growth in policies in-force of 0.2% as compared to June 30, 2014.

Homeowners and other NWP for the three and six months ended June 30, 2015 was $1.806 billion and $3.274 billion, respectively, increases of $108 million and $205 million over the same periods in 2014. The growth reflects a 5.4% increase in homeowners average written premiums (resulting from rate and coverage increases) and growth in policies in-force of 1.0% as compared to June 30, 2014.

Results of Operations – Personal Insurance

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Revenues	$4,219	$3,983	5.9%	$8,352	$7,856	6.3%
PTOI before catastrophes and net incurred losses attributable to prior years	$736	$746	(1.3%)	$1,413	$1,298	8.9%
Catastrophes[1]	(661)	(580)	14.0	(1,069)	(915)	16.8
Net incurred losses attributable to prior years	(9)	(26)	(65.4)	4	(36)	NM
PTOI	$66	$140	(52.9%)	$348	$347	0.3%

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

PTOI for the three and six months ended June 30, 2015 was $66 million and $348 million, respectively, a decrease of $74 million and an increase of $1 million versus the same periods in 2014. Both periods were impacted by higher catastrophe losses, an increase in current accident year non-catastrophe auto physical damage losses, and higher expense ratios. Both periods were positively impacted 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, and unfavorable net incurred losses attributable to prior years in auto liability in 2014 that did not recur.

Revenues for the three and six months ended June 30, 2015 were $4.219 billion and $8.352 billion, respectively, increases of $236 million and $496 million over the same periods in 2014. The major components of revenues are net premium earned and net investment income.

Net premium earned for the three and six months ended June 30, 2015 was $4.034 billion and $7.986 billion, respectively, increases of $220 million and $467 million over the same periods in 2014. The increases reflect the premium earned associated with the changes in NWP previously discussed and NWP growth during the last six months of 2014.

Net investment income for the three and six months ended June 30, 2015 was $153 million and $304 million, respectively, increases of $12 million and $26 million over the same periods in 2014. The increases were driven by a higher invested asset base, partially offset by a lower investment yield.

Claims, benefits and expenses for the three and six months ended June 30, 2015 were $4.153 billion and $8.004 billion, respectively, increases of $310 million and $495 million over the same periods in 2014. The increases were driven by business growth, higher current accident year catastrophes, higher underwriting expenses driven by advertising, and an increase in current accident year non-catastrophe auto physical damage losses. These items were partially offset by unfavorable incurred losses attributable to prior years in auto liability in 2014 that did not recur.

PERSONAL INSURANCE	Three Months Ended June 30,			Six Months Ended June 30,		
	2015	**2014**	**Change (Points)**	**2015**	**2014**	**Change (Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	59.4%	58.8%	0.6	60.1%	60.5%	(0.4)
Underwriting expense ratio	25.6	24.8	0.8	25.5	25.4	0.1
Subtotal	85.0	83.6	1.4	85.6	85.9	(0.3)
Catastrophes[1]	16.4	15.2	1.2	13.4	12.1	1.3
Net incurred losses attributable to prior years	0.2	0.7	(0.5)	(0.1)	0.5	(0.6)
Total combined ratio	101.6%	99.5%	2.1	98.9%	98.5%	0.4

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 and six months ended June 30, 2015 was 85.0% and 85.6%, respectively, an increase of 1.4 points and a decrease of 0.3 points versus the same periods in 2014. The increase in the quarter was driven by higher current accident year non-catastrophe auto physical damage losses and higher advertising expenses, partially offset by favorable loss experience in the homeowners line of business. The decrease in the year was driven by favorable loss experience in the homeowners line of business due to fewer large fire losses. Both periods were impacted by claim adjustment expenses growing at a slower rate than premiums earned.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three and six months ended June 30, 2015 was 101.6% and 98.9%, respectively, increases of 2.1 points and 0.4 points over the same periods in 2014. In addition to the changes in the combined ratio previously discussed, the increases were driven by higher catastrophe losses, partially offset by unfavorable net incurred losses attributable to prior years in auto liability in 2014 that did not recur.

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.

Commercial Insurance NWP by market segment was as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Business Insurance	$1,322	$1,299	1.8%	$2,555	$2,569	(0.5%)
National Insurance	571	533	7.1	1,081	1,054	2.6
Liberty Mutual Benefits	433	394	9.9	852	749	13.8
Other Commercial Insurance	33	51	(35.3)	75	103	(27.2)
Total NWP	$2,359	$2,277	3.6%	$4,563	$4,475	2.0%

Commercial Insurance NWP by line of business was as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Commercial multiple-peril	$534	$494	8.1%	$1,013	$980	3.4%
Workers compensation - Voluntary	465	455	2.2	924	932	(0.9)
Workers compensation - Involuntary	19	41	(53.7)	47	79	(40.5)
Commercial automobile	384	369	4.1	734	717	2.4
General liability	318	300	6.0	609	598	1.8
Group disability and life	311	248	25.4	611	492	24.2
Individual life	121	147	(17.7)	237	253	(6.3)
Other lines	207	223	(7.2)	388	424	(8.5)
Total NWP	$2,359	$2,277	3.6%	$4,563	$4,475	2.0%

NWP for the three and six months ended June 30, 2015 was $2.359 billion and $4.563 billion, respectively, increases of $82 million and $88 million over the same periods in 2014. The increases in both periods were driven by higher group disability and life premium due to strong new business sales, an increase in premium related to retrospectively rated contracts and rate increases across all casualty lines of business. The increases in both periods were partially offset by lower involuntary workers compensation premium assumed from state pools due to decreased market share and a change in an internal reinsurance treaty. Both periods were further impacted by lower life-contingent structured settlement sales and continued competitive market pressures impacting property premium.

Results of Operations – Commercial Insurance

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Revenues	$2,817	$2,781	1.3%	$5,576	$5,523	1.0%
PTOI before catastrophes and net incurred losses attributable to prior years	$352	$332	6.0%	$657	$608	8.1%
Catastrophes[1]	(95)	(109)	(12.8)	(188)	(232)	(19.0)
Net incurred losses attributable to prior years[2,3]	(1)	16	NM	91	38	139.5
PTOI	$256	$239	7.1%	$560	$414	35.3%

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

2 The six months ended June 30, 2015 include 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 and $4 million for the three and six months ended June 30, 2015 and $6 million and $21 million for the same periods in 2014. Net of amortization of deferred gains on assumed retroactive reinsurance of $1 million for both the three and six months ended June 30, 2015 and zero and $1 million for the same periods in 2014.

NM=Not Meaningful

PTOI for the three and six months ended June 30, 2015 was $256 million and $560 million, respectively, increases of $17 million and $146 million over the same periods in 2014. The increases in both periods were driven by improved current accident year losses across most casualty lines of business, lower property and catastrophe losses and profit margin on growth in Liberty Mutual Benefits. These increases were partially offset by higher costs related to employee compensation and information technology. The quarter was further impacted by favorable development on prior accident year losses during 2014 that did not recur. The year further benefited from favorable net incurred losses attributable to prior year as a result of a reduction in the estimated liability for state assessments related to workers compensation.

Revenues for the three and six months ended June 30, 2015 were $2.817 billion and $5.576 billion, respectively, increases of $36 million and $53 million over the same periods in 2014. The major components of revenues are net premium earned, net investment income, net realized gains (losses), and fee and other revenues.

Net premium earned for the three and six months ended June 30, 2015 was $2.287 billion and $4.532 billion, respectively, increases of $14 million and $23 million over the same periods in 2014. The increases in both periods were driven by Liberty Mutual Benefits and casualty lines growth, partially offset by a decrease in workers compensation as a result of the NWP decline during the last six months of 2014.

Net investment income for the three and six months ended June 30, 2015 was $384 million and $768 million, respectively, increases of $4 million and $12 million over the same periods in 2014. The increases in both periods were primarily driven by higher invested assets in Liberty Mutual Benefits, partially offset by lower investment yields.

Net realized gains for the three and six months ended June 30, 2015 were $6 million and zero, respectively, versus net realized losses of $2 million in the same periods in 2014.

Fee and other revenues for the three and six months ended June 30, 2015 were $140 million and $276 million, respectively, increases of $10 million and $16 million over the same periods in 2014. The increases in both periods reflect higher fees associated with 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 and six months ended June 30, 2015 were $2.555 billion and $5.016 billion, respectively, an increase of $11 million and a decrease of $95 million versus the same periods in 2014. The increase in the quarter was driven by expenses related to business growth in Liberty Mutual Benefits as well as higher costs related to employee compensation and information technology, partially offset by improved current accident year losses across most casualty lines of business and lower property and catastrophe losses. The decrease in the year was driven by favorable incurred losses attributable to prior years, which include a reduction in the estimated liability for state assessments related to workers compensation, improved current accident year losses across most casualty lines of business and lower property and catastrophe losses. The decrease in the year was partially offset by higher costs associated with employee compensation and information technology.

	Three Months Ended June 30,			**Six Months Ended June 30,**		
			Change			**Change**
COMMERCIAL INSURANCE	**2015**	**2014**	**(Points)**	**2015**	**2014**	**(Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	60.4%	62.9%	(2.5)	61.0%	64.5%	(3.5)
Underwriting expense ratio	34.4	32.8	1.6	34.3	32.7	1.6
Dividend ratio	0.1	(0.1)	0.2	0.1	0.1	-
Subtotal	94.9	95.6	(0.7)	95.4	97.3	(1.9)
Catastrophes[1]	5.1	5.8	(0.7)	5.1	6.2	(1.1)
Net incurred losses attributable to prior years[2,3]	-	(0.8)	0.8	(2.5)	(1.1)	(1.4)
Total combined ratio	100.0%	100.6%	(0.6)	98.0%	102.4%	(4.4)

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

2 The six months ended June 30, 2015 include 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 and six months ended June 30, 2015 was 94.9% and 95.4%, respectively, decreases of 0.7 points and 1.9 points from the same periods in 2014. The claims and claim adjustment expense ratio for both periods were impacted by improved current accident year losses across most casualty lines of business and lower property losses. The decreases were partially offset by increases in the underwriting expense ratio driven by lower property and casualty earned premium and higher costs related to employee compensation and information technology.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three and six months ended June 30, 2015 was 100.0% and 98.0%, respectively, decreases of 0.6 points and 4.4 points from the same periods in 2014. The decreases in both periods reflect the improvements previously discussed as well as lower current accident year catastrophe losses. The decrease in the quarter was partially offset by favorable development of net incurred losses attributable to prior years in 2014 that did not recur. The decrease in the year was further driven by favorable net incurred losses attributable to prior years as a result of a reduction in the estimated liability for state assessments related to workers compensation.

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, and Ireland, including Northern Ireland; 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.

On June 25, 2015, the Company announced its plans to withdraw from the personal motor insurance market in GB and make significant changes to its operations in Ireland. On July 23, 2015, the Company sold its GB personal motor book of business to Chaucer Insurance Services Ltd. The Company will now focus on the Republic of Ireland market and plans to transfer the customer management of its Northern Ireland policies on renewal to Hughes Insurance Services Limited. Costs associated with this restructuring are included in the Consolidated Financial Statements.

Liberty International NWP by market segment was as follows:

	Three Months Ended June 30,				Six Months Ended June 30,			
$ in Millions	**2015**	**2014**	**Change**	**Change ex. foreign exchange[1]**	**2015**	**2014**	**Change**	**Change ex. foreign exchange[1]**
Latin America and Iberia	$1,429	$1,148	24.5%	53.2%	$2,656	$2,177	22.0%	51.6%
Asia	127	98	29.6	33.2	253	197	28.4	30.8
Emerging Europe	126	148	(14.9)	1.3	220	250	(12.0)	4.7
Large Emerging Markets	57	57	-	15.9	106	111	(4.5)	11.0
Other	7	1	NM	NM	26	1	NM	NM
Total NWP	$1,746	$1,452	20.2%	45.6%	$3,261	$2,736	19.2%	45.0%

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 June 30,			Six Months Ended June 30,		
$ in Millions	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Private passenger automobile	$1,075	$873	23.1%	$1,972	$1,623	21.5%
Commercial automobile	122	93	31.2	276	209	32.1
Homeowners	58	62	(6.5)	113	123	(8.1)
Life and health	254	217	17.1	506	430	17.7
Other[1]	237	207	14.5	394	351	12.3
Total NWP	$1,746	$1,452	20.2%	$3,261	$2,736	19.2%

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 and six months ended June 30, 2015 was $1.746 billion and $3.261 billion, respectively, increases of $294 million and $525 million over the same periods in 2014. Excluding the significant negative impact of foreign exchange driven by the strengthening of the U.S. dollar, the change in both periods reflects local currency growth due to an increase in private passenger auto business in Brazil and increases in sum insured values in the auto line of business resulting from inflation in Venezuela, the acquisition of Malaysia in the third quarter of 2014, and other due to internal reinsurance program changes. Further discussion of the Malaysia acquisition can be found in the Consolidated Results of Operations section.

Results of Operations – Liberty International

	Three Months Ended June 30,			**Six Months Ended June 30,**		
$ in Millions	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Revenues	$1,631	$1,605	1.6%	$3,005	$2,919	2.9%
Mature operations and other[1] PTOI before catastrophes, net incurred losses attributable to prior years and Venezuela devaluation and foreign exchange	$66	$39	69.2%	$98	$107	(8.4%)
Emerging operations[2] pre-tax operating loss before catastrophes, net incurred losses attributable to prior years and Venezuela devaluation and foreign exchange	(54)	(27)	100.0	(82)	(55)	49.1
Catastrophes[3]	(5)	-	NM	(5)	(9)	(44.4)
Net incurred losses attributable to prior years	(23)	24	NM	2	29	(93.1)
Venezuela devaluation and foreign exchange	(52)	92	NM	(41)	71	NM
Pre-tax operating (loss) income	($68)	$128	NM	($28)	$143	NM

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 2015 catastrophes include all current accident year catastrophe losses for Chile floods. 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

Pre-tax operating loss for the three and six months ended June 30, 2015 was $68 million and $28 million, respectively, versus PTOI of $128 million and $143 million in the same periods in 2014. Both periods reflect unfavorable net incurred losses in Ireland (Ireland restructuring and net incurred losses attributable to prior years) and unfavorable increases in claims severity in Venezuela (primarily due to inflation), and a foreign exchange rate change in Venezuela, partially offset by lower large losses in Chile. The year was also offset by positive underwriting results driven by favorable auto frequency and health severity in Brazil and the addition of Malaysia (acquired in the third quarter of 2014).

Revenues for the three and six months ended June 30, 2015 were $1.631 billion and $3.005 billion, respectively, increases of $26 million and $86 million over the same periods in 2014. The primary components of revenues are net premium earned, net investment income and net realized investment (losses) gains.

Net premium earned for the three and six months ended June 30, 2015 was $1.507 billion and $2.916 billion, respectively, increases of $35 million and $9 million over the same periods in 2014. The increases were primarily due to premium earned associated with the local currency growth in NWP previously discussed, partially offset by foreign exchange driven by the strengthening of the U.S. dollar.

Net investment income for the three and six months ended June 30, 2015 was $88 million and $174 million, respectively, decreases of $6 million and $12 million from the same periods in 2014. The decreases

were 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) gains for the three and six months ended June 30, 2015 were ($25) million and ($196) million, respectively, versus $4 million and ($250) million in the same periods in 2014. The quarter was impacted by greater impairment losses recognized as a result of the change in the Venezuela currency exchange rate. The year was further impacted by 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 and six months ended June 30, 2015 were $1.724 billion and $3.229 billion, respectively, increases of $251 million and $203 million over the same periods in 2014. The increases in both periods were primarily driven by unfavorable increases in claims severity in Venezuela (primarily due to inflation), restructuring costs and incurred losses attributable to prior years in Ireland, and the addition of Malaysia (acquired in the third quarter of 2014), partially offset by favorable auto frequency and health severity in Brazil, the strengthening of the U.S. dollar and favorable incurred losses attributable to prior years primarily in Venezuela.

	Three Months Ended June 30,			**Six Months Ended June 30,**		
LIBERTY INTERNATIONAL	**2015[1]**	**2014[1]**	**Change (Points)**	**2015[1]**	**2014[1]**	**Change (Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	65.8%	67.3%	(1.5)	67.0%	66.0%	1.0
Underwriting expense ratio	39.1	38.0	1.1	38.6	38.6	-
Subtotal	104.9	105.3	(0.4)	105.6	104.6	1.0
Catastrophes[2]	0.3	-	0.3	0.2	0.3	(0.1)
Net incurred losses attributable to prior years	1.5	(1.8)	3.3	(0.1)	(1.1)	1.0
Total combined ratio	106.7%	103.5%	3.2	105.7%	103.8%	1.9

1 The combined ratio has been adjusted to exclude the impact of the Venezuela devaluation and foreign exchange.
2 2015 catastrophes include all current accident year catastrophe losses for Chile floods. 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 and six months ended June 30, 2015 was 104.9% and 105.6%, respectively, a decrease of 0.4 points and an increase of 1.0 point versus the same periods in 2014. The decrease in the quarter was primarily driven by a 1.5 point decrease in the claims and claim adjustment expense ratio primarily due to lower large losses in Chile, partially offset by a 1.1 point increase in the underwriting expense ratio primarily due to Ireland restructuring costs. The increase in the year was primarily driven by Venezuela due to unfavorable increases in claims severity (primarily due to inflation). For the year, the underwriting expense ratio increase for Ireland restructuring was offset by increased weighting of Venezuela's lower underwriting expense ratio 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 and six months ended June 30, 2015 was 106.7% and 105.7%, increases of 3.2 points and 1.9 points over the same periods in 2014. The total combined ratio in both periods reflects the changes in the combined ratio previously discussed, as well as unfavorable net incurred losses attributable to prior years in Ireland and catastrophe losses related to Chile floods in the second quarter of 2015. The total combined ratio for the six months ended June 30, 2015 was partially offset by favorable net incurred losses attributable to prior years primarily in Venezuela.

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 segments: 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 June 30,			Six Months Ended June 30,		
$ in Millions	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
LSM	$642	$671	(4.3%)	$1,588	$1,557	2.0%
LIU	397	400	(0.8)	689	791	(12.9)
LM Surety	204	189	7.9	414	367	12.8
Other	55	32	71.9	93	58	60.3
Total NWP	$1,298	$1,292	0.5%	$2,784	$2,773	0.4%
Foreign exchange effect on growth			(3.2)			(4.4)
NWP growth excluding foreign exchange[1]			3.7%			4.8%

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 June 30,			Six Months Ended June 30,		
$ in Millions	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Specialty insurance	$732	$745	(1.7%)	$1,376	$1,385	(0.6%)
Reinsurance	249	257	(3.1)	769	777	(1.0)
Surety	207	191	8.4	422	372	13.4
Inland marine	110	99	11.1	217	239	(9.2)
Total NWP	$1,298	$1,292	0.5%	$2,784	$2,773	0.4%

NWP for the three and six months ended June 30, 2015 was $1.298 billion and $2.784 billion, respectively, increases of $6 million and $11 million over the same periods in 2014. The increases in both periods reflect internal reinsurance program changes, improved contract surety program utilization and international growth in LM Surety (including Primero Fianzas acquisition in July 2014) as well as growth within inland marine. This growth is partially offset by the strengthening of the U.S. dollar, re-underwriting and pricing actions for selective products in specialty insurance and competitive market conditions. The year was further impacted by inland marine program changes, partially offset by LSM specialty insurance business growth in other selective products.

Results of Operations – Global Specialty

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Revenues	$1,318	$1,269	3.9%	$2,628	$2,558	2.7%
PTOI before catastrophes and net incurred losses attributable to prior years	$146	$163	(10.4%)	$328	$340	(3.5%)
Catastrophes [1]	(35)	2	NM	(39)	(21)	85.7
Net incurred losses attributable to prior years [2]	13	(7)	NM	28	(16)	NM
PTOI	$124	$158	(21.5%)	$317	$303	4.6%

1 Catastrophes include all current accident year catastrophe losses for severe storms in the U.S., U.K. floods, Hailstorm Ela, Cyclone Niklas and New South Wales severe storms. 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 zero and $2 million for the three and six months ended June 30, 2015 and zero and $9 million for the same periods in 2014.

NM=Not Meaningful

PTOI for the three and six months ended June 30, 2015 was $124 million and $317 million, respectively, a decrease of $34 million and an increase of $14 million versus the same periods in 2014. Both periods reflect unfavorable underwriting expenses and higher catastrophe losses, partially offset by favorable net incurred losses attributable to prior years.

Revenues for the three and six months ended June 30, 2015 were $1.318 billion and $2.628 billion, respectively, increases of $49 million and $70 million over the same periods in 2014. The major components of revenues are net premium earned and net investment income.

Net premium earned for the three and six months ended June 30, 2015 was $1.227 billion and $2.445 billion, respectively, increases of $41 million and $55 million over the same periods in 2014. The increases in both periods primarily reflect the earnings on NWP growth in prior periods as well as previously mentioned growth in NWP in the current period.

Net investment income for the three and six months ended June 30, 2015 was $84 million and $168 million, respectively, increases of $2 million and $3 million over the same periods in 2014.

Claims, benefits and expenses for the three and six months ended June 30, 2015 were $1.189 billion and $2.302 billion, respectively, increases of $78 million and $46 million over the same periods in 2014. The increases in both periods reflect higher catastrophe losses, business growth and higher underwriting expenses, partially offset by favorable incurred losses attributable to prior years.

GLOBAL SPECIALTY	Three Months Ended June 30, 2015	2014	Change (Points)	Six Months Ended June 30, 2015	2014	Change (Points)
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	58.8%	59.2%	(0.4)	58.2%	58.7%	(0.5)
Underwriting expense ratio	35.3	33.0	2.3	34.4	32.8	1.6
Dividend ratio	0.2	0.1	0.1	0.2	0.2	-
Subtotal	94.3	92.3	2.0	92.8	91.7	1.1
Catastrophes [1]	2.9	(0.1)	3.0	1.6	0.9	0.7
Net incurred losses attributable to prior years[2]	(1.0)	0.6	(1.6)	(1.2)	0.6	(1.8)
Total combined ratio	96.2%	92.8%	3.4	93.2%	93.2%	-

1 Catastrophes include all current accident year catastrophe losses for severe storms in the U.S., U.K. floods, Hailstorm Ela, Cyclone Niklas and New South Wales severe storms. 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 and six months ended June 30, 2015 was 94.3% and 92.8%, respectively, increases of 2.0 points and 1.1 points over the same periods in 2014. For both periods, the decreases in the claims and claim adjustment expense ratio and the increases in the underwriting expense ratio were primarily due to increased weighting of LM Surety relative to the total SBU. The combined ratio was further impacted by an increase in employee compensation, investments in technology and program changes in inland marine, partially offset by improved assumed reinsurance results.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three and six months ended June 30, 2015 was 96.2% and 93.2%, respectively, an increase of 3.4 points and no change versus the same periods in 2014. The increase in the quarter reflects higher catastrophe losses as well as the changes to the combined ratio mentioned above, partially offset by favorable net incurred losses attributable to prior years driven primarily by LIU and LSM. There was no change for the year as the increases in the combined ratio mentioned above and higher catastrophe losses are offset by favorable net incurrent losses attributable to prior years.

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 June 30,			Six Months Ended June 30,		
$ in Millions	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Reinsurance, net	$6	$49	(87.8%)	$274	$130	110.8%
Workers compensation - Voluntary[1]	41	46	(10.9)	62	76	(18.4)
Other	-	2	(100.0)	1	2	(50.0)
Total NWP	$47	$97	(51.5%)	$337	$208	62.0%

[1] Booked as billed adjustment.

NWP for the three and six months ended June 30, 2015 was $47 million and $337 million, respectively, a decrease of $50 million and an increase of $129 million versus the same periods in 2014. The decrease in the quarter was primarily driven by the timing of reinsurance programs. The increase in the year was primarily driven by 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 June 30,			Six Months Ended June 30,		
$ in Millions	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Revenues	$395	$310	27.4%	$499	$754	(33.8%)
Pre-tax operating loss before catastrophes, net incurred losses attributable to prior years, and LP, LLC and other equity method income	($283)	($219)	29.2%	($528)	($359)	47.1%
Catastrophes[1]	(4)	12	NM	5	15	(66.7)
Net incurred losses attributable to prior years:						
- Asbestos & environmental[2]	(1)	(1)	-	(2)	(2)	-
- All other[3]	13	(28)	NM	1	3	(66.7)
Pre-tax operating loss before LP, LLC and other equity method income	(275)	(236)	16.5	(524)	(343)	52.8
LP, LLC and other equity method income[4]	68	124	(45.2)	51	361	(85.9)
Pre-tax operating (loss) income	($207)	($112)	84.8%	($473)	$18	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 Gross of the NICO Reinsurance Transaction.

3 Net of earned premium attributable to prior years of zero for the three and six months ended June 30, 2015 and ($19) million and ($18) million for the same periods in 2014. Net of amortization of deferred gains on retroactive reinsurance of zero and $1 million for the three and six months ended June 30, 2015 and $1 million and $1 million for the same periods in 2014.

4 LP, LLC and other equity method income is included in net investment income in the accompanying Consolidated Statements of Income.

NM = Not Meaningful

Pre-tax operating loss for the three and six months ended June 30, 2015 was $207 million and $473 million, respectively, increases of $95 million and $491 million over the same periods in 2014. The increases in both periods reflect lower net investment income, favorable results in 2014 related to an internal reinsurance program that did not recur, and higher employee pension expenses, partially offset by favorable annuity reserve development. The year was further impacted by a reduction in oil and gas production operations' PTOI, driven by lower prices.

Revenues for the three and six months ended June 30, 2015 were $395 million and $499 million, respectively, an increase of $85 million and a decrease of $255 million versus the same periods in 2014. The major components of revenues are net premium earned, net investment income (loss), net realized gains, and fee and other revenues.

Net premium earned for the three and six months ended June 30, 2015 was $50 million and $96 million, respectively, increases of $24 million and $21 million over the same periods in 2014. The increases in both periods reflect earnings on NWP growth in prior periods outpacing the reduction in NWP in the second quarter.

Net investment income (loss) for the three and six months ended June 30, 2015 was $17 million and ($51) million, respectively, decreases of $91 million and $365 million from the same periods in 2014. The decreases in both periods were a result of lower changes in valuations in the energy sector. The decrease in the year was also largely impacted by lower changes in valuations in LP and LLC private equity investments, primarily due to prior year IPO activity that did not recur.

Net realized gains for the three and six months ended June 30, 2015 were $241 million and $276 million, respectively, increases of $197 million and $182 million over the same periods in 2014. The increases in both periods were driven by gains on sales of equity investments that occurred in 2015.

Fee and other revenues for the three and six months ended June 30, 2015 were $87 million and $178 million, respectively, decreases of $45 million and $93 million from the same periods in 2014. The decreases were primarily driven by lower oil and gas revenues as a result of lower prices.

Claims, benefits and expenses for the three and six months ended June 30, 2015 were $361 million and $696 million, respectively, a decrease of $17 million and an increase of $54 million versus the same periods in 2014. Both periods were driven by favorable results in 2014 related to an internal reinsurance program that did not recur, reinsurance program growth resulting from the centralization of external reinsurance purchasing, and higher employee pension expenses, partially offset by favorable annuity reserve development. The quarter was further impacted by lower depreciation and impairments related to Liberty Energy.

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 June 30, 2015 and December 31, 2014:

$ in Millions	As of June 30, 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	$63,058	79.8%	$64,081	80.3%
Equity securities, available for sale, at fair value	3,042	3.9	3,145	3.9
LPs, LLCs and other equity method investments	4,758	6.0	4,752	6.0
Commercial mortgage loans	2,167	2.7	1,808	2.3
Short-term investments	383	0.5	626	0.8
Other investments	793	1.0	640	0.8
Cash and cash equivalents	4,797	6.1	4,716	5.9
Total invested assets	$78,998	100.0%	$79,768	100.0%

Total invested assets as of June 30, 2015 were $78.998 billion, a decrease of $770 million or 1.0% from December 31, 2014. The decrease reflects the unfavorable impact of rising treasury yields, the strengthening U.S. dollar, and foreign exchange driven other-than-temporary impairments on Venezuelan fixed maturity securities. These decreases were partially offset by an increase in new commercial mortgage loan investments.

Fixed maturities as of June 30, 2015 were $63.058 billion, a decrease of $1.023 billion or 1.6% from December 31, 2014. The decrease reflects the unfavorable impact of rising treasury yields, the strengthening U.S. dollar, and foreign exchange driven other-than-temporary impairments on Venezuelan fixed maturity securities. As of June 30, 2015, included in fixed maturities are commitments to purchase various residential mortgage-backed securities at a cost of $271 million and fair value of $266 million, and various corporate and municipal securities at a cost of $199 million and fair value of $200 million.

Equity securities available for sale as of June 30, 2015 were $3.042 billion ($2.695 billion common stock and $347 million preferred stock) versus $3.145 billion as of December 31, 2014 ($2.790 billion common stock and $355 million preferred stock), a decrease of $103 million or 3.3% from December 31, 2014. Of the $2.695 billion of common stock at June 30, 2015, $480 million relates to securities associated with non-guaranteed unit linked products where the policyholder bears the investment risk. The decrease in total equity securities available for sale was primarily due to sales, partially offset by positive market performance.

LPs, LLCs and other equity method investments as of June 30, 2015 were $4.758 billion, an increase of $6 million or 0.1% over December 31, 2014. These investments consist of traditional private equity partnerships of $2.183 billion, natural resources partnerships of $738 million ($520 million related to energy investments), real estate partnerships of $453 million, other partnerships of $1.110 billion, and other equity method investments of $274 million. 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 June 30, 2015 were $2.167 billion (net of $12 million of loan loss reserves or 0.6% of the outstanding loan portfolio), an increase of $359 million or 19.9% over December 31, 2014. The increase primarily reflects $454 million in funding and a decrease of $2 million to the loan loss reserve, partially offset by $97 million in principal reductions. The entire commercial loan portfolio is U.S. based. As of June 30, 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 4,684 at June 30, 2015.

Short-term investments as of June 30, 2015 were $383 million, a decrease of $243 million or 38.8% from December 31, 2014. The decrease reflects sales and maturities of short-term holdings across the Company's International operations.

Other investments as of June 30, 2015 were $793 million, an increase of $153 million or 23.9% over December 31, 2014. The increase was primarily related to the purchase of real estate held for investment.

Cash and cash equivalents as of June 30, 2015 were $4.797 billion, an increase of $81 million or 1.7% over December 31, 2014. The increase was primarily related to net cash received from operations.

As of June 30, 2015, the Company had unfunded commitments in traditional private equity partnerships, natural resources, real estate, and other of $1.414 billion, $2.618 billion (all of which is related to energy investments), $583 million, and $1.091 billion, respectively.

Regarding fair value measurements, as of June 30, 2015, excluding other assets, the Company reflected $4.966 billion (7.4%) 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 June 30, 2015 the Company reported $60.090 billion (89.6%) as level 2, consisting primarily of fixed maturity securities. Finally, the Company reported $2.045 billion (3.0%) as level 3 (unobservable inputs), primarily consisting of international and privately held securities for which a market price is not readily observable.

As of June 30, 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 June 30, 2015, investments in the energy sector accounted for $3.257 billion or 4.1% of total invested assets. These investments consist of investment grade bonds of $2.294 billion, bonds that were rated below investment grade of $269 million, publicly traded equity securities of $154 million, and natural resources partnerships and other equity method investments of $540 million. In addition, the Company has direct investments in oil and gas wells of $1.871 billion which are included in Other assets on the Consolidated Balance Sheets. Unfunded energy investment commitments as of June 30, 2015 were $2.618 billion, of which, $782 million and $1.836 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 June 30, 2015 and December 31, 2014:

$ in Millions **June 30, 2015**	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. government and agency securities	$2,898	$160	($7)	$3,051
Residential MBS [1]	7,628	242	(28)	7,842
Commercial MBS	1,608	28	(11)	1,625
Other MBS and ABS [2]	3,078	67	(11)	3,134
U.S. state and municipal	12,638	654	(103)	13,189
Corporate and other	28,145	1,231	(260)	29,116
Foreign government securities	4,917	214	(30)	5,101
Total fixed maturities	60,912	2,596	(450)	63,058
Common stock	2,209	548	(62)	2,695
Preferred stock	383	15	(51)	347
Total equity securities	2,592	563	(113)	3,042
Total securities available for sale	$63,504	$3,159	($563)	$66,100

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 June 30, 2015:

$ in Millions	As of June 30, 2015							
Mortgage & Asset-Backed Fixed Maturities by Credit Quality[1]	**AAA**	**AA**	**A**	**BBB**	**BB**	**B or Lower**	**Total**	**% of Total**
SBA loans	$2,242	$-	$-	$-	$-	$-	$2,242	17.8%
GNMA residential mortgage	3,368	6	-	-	-	-	3,374	26.8
FNMA residential mortgage	2,133	-	-	-	-	-	2,133	16.9
FHLMC residential mortgage	2,031	-	-	-	-	-	2,031	16.1
Prime residential mortgage	23	-	1	2	8	119	153	1.2
Alt-A residential mortgage	-	8	-	-	7	106	121	1.0
Sub-prime residential mortgage	8	-	-	2	4	16	30	0.2
Commercial MBS	1,551	44	-	30	-	-	1,625	12.9
Non-mortgage ABS	488	-	64	330	2	8	892	7.1
Total	$11,844	$58	$65	$364	$21	$249	$12,601	100.0%
% of Total	94.0%	0.4%	0.5%	2.9%	0.2%	2.0%	100.0%	

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

Approximately 78% 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 June 30, 2015 and December 31, 2014:

$ in Millions	As of June 30, 2015		As of December 31, 2014	
Fixed Maturities by Credit Quality[1]	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
AAA	$19,985	31.8%	$20,988	32.8%
AA+, AA, AA-	10,913	17.3	10,983	17.1
A+, A, A-	15,270	24.2	15,660	24.4
BBB+, BBB, BBB-	12,557	19.9	11,919	18.6
Total investment grade	58,725	93.2	59,550	92.9
BB+, BB, BB-	1,539	2.4	1,478	2.3
B+, B, B-	1,572	2.5	1,605	2.5
CCC or lower	1,222	1.9	1,448	2.3
Total below-investment grade	4,333	6.8	4,531	7.1
Total fixed maturities	$63,058	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 June 30, 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 June 30, 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 June 30, 2015.

The following table summarizes available for sale fixed maturity securities by contractual maturity at June 30, 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 June 30, 2015		As of December 31, 2014	
Fixed Maturities by Maturity Date	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
One year or less	$3,617	5.7%	$3,632	5.7%
Over one year through five years	16,633	26.4	17,455	27.2
Over five years through ten years	17,519	27.8	17,539	27.4
Over ten years	12,688	20.1	12,850	20.0
MBS and ABS	12,601	20.0	12,605	19.7
Total fixed maturities	$63,058	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 and six months ended June 30, 2015 and 2014:

$ in Millions	Three Months Ended June 30,		Six Months Ended June 30,	
Net Investment Income	**2015**	**2014**	**2015**	**2014[1]**
Taxable interest income	$546	$562	$1,097	$1,120
Tax-exempt interest income	98	105	198	213
Dividends	21	23	35	38
LP, LLC and other equity method income	68	124	51	361
Commercial mortgage loans	27	23	53	45
Other investment income	7	3	12	7
Gross investment income	767	840	1,446	1,784
Investment expenses[2]	(41)	(35)	(83)	(71)
Net investment income	$726	$805	$1,363	$1,713

[1]The above table contains net investment income attributable to discontinued operations of $14 million for the six months ended June 30, 2014.
[2]Fees paid to external managers are included within the components of gross investment income.

Net investment income for the three and six months ended June 30, 2015 was $726 million and $1.363 billion, respectively, decreases of $79 million and $350 million versus the same periods in 2014. The decreases in both periods were a result of lower changes in valuations in the energy sector. The decrease in the year was also largely impacted by lower changes in valuations in LP and LLC private equity investments, primarily due to prior year IPO activity that did not recur.

Net Realized Gains (Losses)

The following tables summarize the Company's net realized gains (losses) for the three and six months ended June 30, 2015 and 2014:

$ in Millions **Net Realized Gains (Losses)**	**Sales & Dispositions**	**Impairments**	**Change in Derivatives Value**	**Total**
Three Months Ended June 30, 2015:				
Fixed maturities	$100	($29)	$-	$71
Equities	187	(9)	-	178
Other	(3)	(1)	(18)	(22)
Total	$284	($39)	($18)	$227
Three Months Ended June 30, 2014:				
Fixed maturities	$44	($2)	$-	$42
Equities	11	(2)	-	9
Other	(4)	(1)	-	(5)
Total	$51	($5)	$-	$46

$ in Millions **Net Realized Gains (Losses)**	**Sales & Dispositions**	**Impairments**	**Change in Derivatives Value**	**Total**
Six Months Ended June 30, 2015:				
Fixed maturities	$76	($163)	$-	($87)
Equities	222	(15)	-	207
Other	(11)	(9)	(11)	(31)
Total	$287	($187)	($11)	$89
Six Months Ended June 30, 2014:				
Fixed maturities	$40	($257)	$-	($217)
Equities	59	(3)	-	56
Other	8	(6)	-	2
Total	$107	($266)	$-	($159)

$ in Millions	Three Months Ended June 30,		Six Months Ended June 30,	
Components of Net Realized Gains (Losses)	**2015**	**2014**	**2015**	**2014**
Fixed maturities:				
Gross realized gains	$102	$66	$137	$96
Gross realized losses	(31)	(24)	(224)	(313)
Equities:				
Gross realized gains	200	16	251	68
Gross realized losses	(22)	(7)	(44)	(12)
Other:				
Gross realized gains	4	2	15	42
Gross realized losses	(26)	(7)	(46)	(40)
Total net realized gains (losses)	$227	$46	$89	($159)

Net realized gains (losses) for the three and six months ended June 30, 2015 were $227 million and $89 million, respectively, versus $46 million and ($159) million in the same periods in 2014. The increase in net realized gains in both periods was driven by equity sales that occurred in 2015, partially offset by impairment losses recognized as a result of the change in the Venezuela currency exchange rate. The year was further impacted by 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 June 30, 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	($4)	$336	($3)	$313
Residential MBS	(18)	1,628	(10)	428
Commercial MBS	(9)	524	(2)	136
Other MBS and ABS	(6)	919	(5)	400
U.S. state and municipal	(92)	2,583	(11)	136
Corporate and other	(217)	7,683	(43)	800
Foreign government securities	(13)	814	(17)	383
Total fixed maturities	(359)	14,487	(91)	2,596
Common stock	(52)	582	(10)	34
Preferred stock	-	17	(51)	256
Total equity securities	(52)	599	(61)	290
Total securities available for sale	($411)	$15,086	($152)	$2,886

Unrealized losses increased from $367 million as of December 31, 2014 to $563 million as of June 30, 2015 primarily related to an increase in treasury yields. Unrealized losses less than 12 months increased from $156 million at December 31, 2014 to $411 million as of June 30, 2015. Unrealized losses 12 months or longer decreased from $211 million as of December 31, 2014 to $152 million as of June 30, 2015. Of the $10 million of 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 June 30, 2015, there were 832 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. The Company has concluded that the gross unrealized losses of fixed maturity securities as of June 30, 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 June 30, 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. The Company has concluded that the gross unrealized losses of equity securities as of June 30, 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 June 30, 2015 (including cash and cash equivalents) totaled $78.998 billion.

Debt outstanding as of June 30, 2015 and December 31, 2014 was as follows:

Short-term debt:

$ in Millions	**As of June 30, 2015**	**As of December 31, 2014**
Short-term debt	$ 23	$ -

Long-term debt:

$ in Millions	**As of June 30, 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 executed 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

Effective July 2, 2015, LMIC renewed its $1 billion repurchase agreement for a two-year period, which terminates July 3, 2017 unless extended. To date, no funds have been borrowed under the facility.

On April 8, 2015, Liberty Mutual Group Inc. ("LMGI") increased its Commercial Paper program from $750 million to $1 billion. There was no commercial paper outstanding at June 30, 2015.

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 commercial paper program that is guaranteed by LMIC. To date, no funds have been borrowed under 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 the 2044 Notes. Interest is payable semi-annually at a fixed rate of 4.85%. The 2044 Notes mature on August 1, 2044.

On December 20, 2012, LMIC entered into a three-year $1 billion repurchase agreement which terminates on December 20, 2015. As of June 30, 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 June 30, 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 and six months ended June 30, 2015 was $109 million and $219 million, respectively, increases of $9 million and $15 million over the same periods in 2014. Interest expense reflects the new 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. However, the subsidiaries are separate and distinct legal entities and have no obligation to make funds available to the Company, whether in the form of loans, dividends or other distributions. As of June 30, 2015, the Company, through its downstream subsidiary 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	$32
LMFIC	485%	453%	$115	$8
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 six months ended June 30, 2015. Available dividend capacity as of June 30, 2015 is calculated as 2015 dividend capacity less dividends paid for the preceding 12 months. Dividends paid July 1, 2014 through June 30, 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 adviser 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 and six months ended June 30, 2015, LCS recorded $80 million and $154 million, respectively, 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 $18.521 billion and $19.180 billion at June 30, 2015 and December 31, 2014, respectively. The decrease in surplus primarily reflects affiliated unrealized losses of $895 million, a reduction to other changes in surplus of $379 million and unaffiliated unrealized losses of $234 million, partially offset by net income of $849 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, non-admitted 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 2014, the Company elected to adopt the FASB issued ASU 2014-01, *Accounting for Investments in Qualified Affordable Housing Projects* ("ASU 2014-01"). This guidance, as codified in Accounting Standard 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 accounting standards through the second 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 aren't 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 ASU 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, ASU 2015-02

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 variable interest entities will likely be required.

The Company will adopt the FASB issued ASU 2015-03, *Interest – Imputation of Interest – Simplifying the Presentation of Debt Issuance Costs* ("ASU 2015-03"). This guidance requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Prior to the issuance of this standard, debt issuance costs were required to be presented in the balance sheet as an asset. ASU 2015-03 should be applied on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect period-specific effects of applying the new guidance, and 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 ASU is effective for fiscal years, and interim period within those fiscal years, beginning after December 31, 2016. The adoption of ASU 2015-03 is not expected to have a material impact on the Company's financial statements.

The Company will adopt the FASB issued ASU 2015-09, *Disclosures about Short-Duration Contracts* ("ASU 2015-09"). The amendments apply to all insurance entities that issue short-duration contracts as defined in ASC 944, *Financial Services – Insurance.* The disclosures required by this ASU are aimed at providing the users of the financial statements with more transparent information about initial claim estimates and subsequent adjustments to those estimates, methodologies and judgments in estimating claims, and the timing, frequency and severity of claims. The new disclosures will require the accumulation and reporting of new and different groupings of data by insurers for U.S. GAAP reporting from what is currently captured for U.S. statutory and other reporting purposes. For public business entities, the amendments in ASU 2015-09 are effective for annual periods beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016. For all other entities, the amendments of this ASU are effective for annual periods beginning after December 15, 2016, and interim periods within annual periods beginning after December 15, 2017. The adoption of ASU 2015-09 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 short-duration contracts will be required.

There are no other accounting standards not yet adopted by the Company that are expected to have an 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 $50.329 billion and $50.388 billion as of June 30, 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 $1.034 billion and $1.225 billion as of June 30, 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 $13.800 billion and $13.986 billion at June 30, 2015 and December 31, 2014, respectively, net of allowance for doubtful accounts of $148 million and $149 million, respectively. Included in these balances are $582 million and $548 million of paid recoverables and $13.366 billion and $13.587 billion of unpaid recoverables (including retroactive reinsurance), 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 $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	**Six Months Ended June 30, 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 loss development	3	111
Workers compensation favorable loss development	(11)	(26)
Total amounts ceded under NICO Reinsurance Transaction	(8)	85
Retroactive reinsurance reductions/(benefits) recognized into income	8	(85)
Pre-tax impact of unrecognized deferred retroactive reinsurance benefit	-	-
Unrecognized reinsurance benefit related to original transaction loss at the end of the period	$51	$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 June 30, 2015, and December 31, 2014, deferred gains were $7 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 and six months ended June 30, 2015 was zero and $1 million, respectively as compared to $1 million and $1 million for the three and six months ended June 30, 2014, respectively. Deferred gain amortization was zero and $1 million for the three and six months ended June 30, 2015, respectively as compared to $1 million and $1 million for the three and six months ended June 30, 2014, respectively. Reinsurance recoverables related to these transactions, including experience related profit accruals, were $61 million and $64 million as of June 30, 2015 and December 31, 2014, respectively.

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 June 30, 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 June 30, 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 $388 million and $373 million as of June 30, 2015 and December 31, 2014, respectively, and the Company's maximum exposure to loss was $654 million and $665 million as of June 30, 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 $3.369 billion and $3.170 billion as of June 30, 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 $4.807 billion and $4.834 billion as of June 30, 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 for 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 $648 million and $550 million as of June 30, 2015 and December 31, 2014, net of a valuation allowance of $139 million and $141 million, respectively. Prior period amounts have been restated to reflect the 2015 adoption of ASU 2014-01 related to qualified affordable housing projects. The net increase in the Company's net deferred income tax asset is primarily due to changes in net unrealized gains and losses on investments offset by the utilization of net operating losses. The overall decrease in the valuation allowance is primarily due to currency translation adjustments, offset by the establishment of a full valuation allowance for the Ireland operations. 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 to and the likelihood of generating future taxable income.

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

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

Balance at December 31, 2014	$182
Additions based on tax positions related to current year	3
Reductions based on tax positions related to current year	(1)
Additions for tax positions of prior years	12
Reductions for tax positions of prior years	(10)
Settlements	(2)
Translation	(5)
Balance at June 30, 2015	$179

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 June 30, 2015 and December 31, 2014, respectively.

Included in the balance at June 30, 2015, is $78 million related to tax positions that would impact the effective tax rate.

The Company recognizes interest and penalties related to unrecognized tax benefits in Federal, state, and foreign income tax expense. For the three months ended June 30, 2015 and 2014, the Company recognized $1 and $5 million of interest and penalties in each period. For the six months ended June 30, 2015 and 2014, the Company recognized $1 million and $8 million of interest and penalties, respectively. The Company had $62 million and $59 million of interest and penalties accrued as of June 30, 2015 and December 31, 2014, respectively.

The IRS has completed its review of the Company's United States 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 78th on the Fortune 100 list of largest corporations in the U.S. based on 2014 revenue. As of December 31, 2014, LMHC had $124.293 billion in consolidated assets[1], $104.002 billion in consolidated liabilities[1], and $39.657 billion in annual consolidated revenue[1].

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.

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[1] Reflects the 2015 adoption of the FASB issued ASU 2014-01, *Accounting for Investments in Qualified Affordable Housing Projects*.