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

Quarter Ended September 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 nine months ended September 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, September 30, 2015 Unaudited Consolidated Financial Statements and Third Quarter 2015 Financial Supplement located on the Company's Investor Relations website at www.libertymutualgroup.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.libertymutualgroup.com/investors (or any successor site).

Index

	Page
Cautionary Statement Regarding Forward Looking Statements	3
Executive Summary	4
Consolidated Results of Operations	7
Review of Financial Results by Business Unit	
Personal Insurance	18
Commercial Insurance	21
Liberty International	24
Global Specialty	27
Corporate and Other	30
Investments	33
Liquidity and Capital Resources	41
Critical Accounting Policies	45
About the Company	54

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; 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.libertymutualgroup.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 September 30, 2015 - Consolidated Results of Operations

- Revenues for the three months ended September 30, 2015 were $9.312 billion, a decrease of $237 million or 2.5% from the same period in 2014.
- Net written premium ("NWP") for the three months ended September 30, 2015 was $8.776 billion, a decrease of $179 million or 2.0% from the same period in 2014.
- Net investment income for the three months ended September 30, 2015 was $759 million, a decrease of $45 million or 5.6% from the same period in 2014.
- Pre-tax operating income ("PTOI") before partnerships, LLC and other equity method income for the three months ended September 30, 2015 was $677 million, an increase of $84 million or 14.2% over the same period in 2014.
- PTOI for the three months ended September 30, 2015 was $723 million, a decrease of $65 million or 8.2% from the same period in 2014.
- Catastrophe losses for the three months ended September 30, 2015 were $239 million, a decrease of $51 million or 17.6% from the same period in 2014.
- Discontinued operations, net of tax for the three months ended September 30, 2015 were ($744) million versus $66 million in the same period in 2014. Effective September 30, 2015, the Company determined it was appropriate to deconsolidate the Venezuelan operations, and has classified the Venezuelan operations as discontinued operations and held for sale.
- Net operating income for the three months ended September 30, 2015 was $485 million, a decrease of $100 million or 17.1% from the same period in 2014.
- Net loss attributable to LMHC for the three months ended September 30, 2015 was $427 million versus $605 million net income attributable to LMHC in the same period in 2014, reflecting the deconsolidation of our Venezuelan subsidiary and energy investment related losses.
- The consolidated combined ratio before catastrophes[1] and net incurred losses attributable to prior years[2] for the three months ended September 30, 2015 was 93.5%, an increase of 1.3 points over the same period in 2014. Including the impact of catastrophes and net incurred losses attributable to prior years, the Company's combined ratio for the three months ended September 30, 2015 improved 1.2 points to 95.6%.
- Cash flow provided by operations for the three months ended September 30, 2015 was $1.519 billion, compared to cash used of $1.587 billion for the same period in 2014.

---

[1]2015 catastrophes include all current accident year catastrophe losses for severe storms in the U.S. and New South Wales, Cyclone Niklas, Chile earthquake and Chile floods. 2014 catastrophes include all current accident year catastrophe losses for severe storms in the U.S., U.K. and Ireland floods and Hailstorm Ela. 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.

Nine Months Ended September 30, 2015 - Consolidated Results of Operations

- Revenues for the nine months ended September 30, 2015 were $28.282 billion, a decrease of $38 million or 0.1% from the same period in 2014.
- NWP for the nine months ended September 30, 2015 was $26.417 billion, an increase of $316 million or 1.2% over the same period in 2014.
- Net investment income for the nine months ended September 30, 2015 was $2.067 billion, a decrease of $391 million or 15.9% from the same period in 2014.
- PTOI before partnerships, LLC and other equity method income for the nine months ended September 30, 2015 was $1.375 billion, an increase of $91 million or 7.1% over the same period in 2014.
- PTOI for the nine months ended September 30, 2015 was $1.415 billion, a decrease of $468 million or 24.9% from the same period in 2014.
- Catastrophe losses for the nine months ended September 30, 2015 were $1.535 billion, an increase of $83 million or 5.7% over the same period in 2014.
- Discontinued operations, net of tax for the nine months ended September 30, 2015 were ($909) million versus ($119) million in the same period in 2014. Effective September 30, 2015, the Company determined it was appropriate to deconsolidate the Venezuelan operations, and has classified the Venezuelan operations as discontinued operations and held for sale.
- Net operating income for the nine months ended September 30, 2015 was $997 million, a decrease of $391 million or 28.2% from the same period in 2014.
- Net income attributable to LMHC for the nine months ended September 30, 2015 was $103 million, a decrease of $1.158 billion or 91.8% from the same period in 2014, reflecting the deconsolidation of our Venezuelan subsidiary and energy investment related losses.
- The consolidated combined ratio before catastrophes and net incurred losses attributable to prior years for the nine months ended September 30, 2015 was 92.7%, an increase of 0.1 points over the same period in 2014. Including the impact of catastrophes and favorable net incurred losses attributable to prior years, the Company's combined ratio for the nine months ended September 30, 2015 improved 0.6 points to 98.5%.
- Cash flow provided by operations for the nine months ended September 30, 2015 was $2.653 billion, compared to cash used of $379 million for the same period in 2014.

Financial Condition as of September 30, 2015

- Total assets were $122.311 billion as of September 30, 2015, a decrease of $1.982 billion or 1.6% from December 31, 2014.
- Total equity was $19.082 billion as of September 30, 2015, a decrease of $1.209 billion or 6.0% from December 31, 2014.

Subsequent Events

On December 2, 2015, the Company received regulatory approval for the Compañia de Seguros Generales Penta Security S.A., acquisition in Chile. The transaction still remains subject to certain closing conditions. See Consolidated Results of Operations for further details.

On November 29, 2015, the Company through its affiliate entered into a stock purchase agreement for the sale of the Venezuelan operations. The transaction is subject to certain conditions and the receipt of appropriate regulatory approvals. Further discussion can be found in Consolidated Results of Operations under Venezuela.

CONSOLIDATED RESULTS OF OPERATIONS

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

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

Effective September 30, 2015, the Company determined it was appropriate to deconsolidate the Venezuelan operations and recognized an impairment charge of $690 million. Concurrent with this decision, the Company has classified the Venezuelan operations (a net loss of $54 million and $219 million for the three and nine months ended September 30, 2015, respectively) and the related impairment charge as discontinued operations and held for sale. The Company will account for its ongoing investment in Venezuela on the cost basis and will no longer include the results of the Venezuelan operations in the Consolidated Statements of Operations. All prior periods have been adjusted to reflect this change.

On July 23, 2015, the Company sold its Quinn-direct branded private motor book in Great Britain 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 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. On December 2, 2015, the transaction was approved by the regulator. In addition to the typical acquisition closing conditions, the transaction remains subject to the cooperation of the parties to assure a successful completion of a tender offer process through which minority shareholders will also be invited to tender their shares to Liberty.

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. 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 July 24, 2014 and October 28, 2014, Liberty Mutual Group Inc. ("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. For further discussion see the Reinsurance Recoverables section.

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 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 in the accompanying Consolidated Statements of Operations 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 in the accompanying Consolidated Statements of Operations and are no longer included with Liberty International.

Venezuela

Effective as of September 30, 2015, the Company has determined to deconsolidate the Venezuelan subsidiaries and offer the Venezuelan operations for sale.

Since 2010 the Company's operations in Venezuela have been operating in a hyperinflationary economy with restrictive foreign exchange controls.

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 September 30, 2015, the exchange rate of bolivars per U.S. dollar for CENCOEX, SICAD and SIMADI was 6.3, 13.5, and 198, respectively. The Company used the SICAD rate, consistent with promulgated guidance, to remeasure the Venezuelan operation's financial statements.

These three mechanisms have become increasingly restrictive and illiquid over time. The Company believes that significant uncertainty continues to exist regarding the foreign exchange mechanisms in Venezuela, including the nature of transactions that are eligible to flow through CENCOEX, SICAD or SIMADI, how any such mechanisms will operate in the future, as well as the availability of U.S. dollars under each mechanism.

The evolving conditions in Venezuela, including the increasingly restrictive exchange control regulations and other factors, significantly impact our control over the Venezuelan operations. As a result of these factors, which we believe to be other-than-temporary, we concluded that effective September 30, 2015, we do not meet the accounting criteria for control over the Venezuelan operations, and therefore have deconsolidated these operations in the accompanying financial statements. As a result of deconsolidating, the Company recognized an impairment charge of approximately $690 million which includes the write down of the investment in the previously consolidated Venezuelan operations to fair value and the write-off of related intercompany balances.

As a result of the above, the Company has re-examined its strategy in Venezuela and determined that the Venezuelan operations would be best served under new ownership. In this regard, on November 29, 2015 the Company, through its affiliate, entered into a stock purchase agreement for the sale of the Venezuelan operations. The transaction is subject to certain conditions and the receipt of appropriate regulatory approvals. While the parties seek and await such regulatory approvals, the Venezuelan operations will continue to operate and provide services to policyholders. The Company's Venezuelan operations are classified as discontinued operations on the Company's Consolidated Financial Statements.

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 September 30,			Nine Months Ended September 30,		
$ in Millions	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Private passenger automobile	$3,252	$3,265	(0.4%)	$9,359	$9,219	1.5%
Homeowners	1,577	1,541	2.3	4,390	4,228	3.8
Specialty insurance	678	759	(10.7)	2,440	2,404	1.5
Commercial multiple-peril	522	536	(2.6)	1,492	1,481	0.7
Workers compensation - Voluntary	479	559	(14.3)	1,523	1,616	(5.8)
Workers compensation - Involuntary	26	11	136.4	73	90	(18.9)
Commercial automobile	426	446	(4.5)	1,305	1,289	1.2
Global specialty reinsurance	203	217	(6.5)	972	994	(2.2)
Group disability and group life	362	315	14.9	1,075	913	17.7
General liability	353	337	4.7	1,044	1,037	0.7
Commercial property	198	227	(12.8)	591	659	(10.3)
Individual life and A&H	132	169	(21.9)	432	490	(11.8)
Surety	203	205	(1.0)	630	579	8.8
Global specialty inland marine	116	100	16.0	333	339	(1.8)
Other[1]	249	268	(7.1)	758	763	(0.7)
Total NWP[2]	$8,776	$8,955	(2.0%)	$26,417	$26,101	1.2%

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 nine months ended September 30, 2015 was $8.776 billion and $26.417 billion, respectively, a decrease of $179 million and an increase of $316 million versus the same periods in 2014.

Significant changes by major line of business include:

- Private passenger automobile NWP decreased $13 million and increased $140 million in the quarter and year, respectively. Both periods benefitted from rate and model year increases and, to a lesser extent, growth in policies in-force in Personal Insurance, along with growth in Liberty International including Malaysia (acquired in the third quarter of 2014). This was more than offset in the quarter and partially offset in the year by the strengthening of the U.S. dollar and the exit from personal general insurance market in Great Britain.
- Homeowners NWP increased $36 million and $162 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, partially offset by the strengthening of the U.S. dollar.
- Workers compensation - Voluntary NWP decreased $80 million and $93 million in the quarter and year, respectively. The decreases were primarily driven by exposure reductions, partially offset by rate increases.
- Group disability and group life NWP increased $47 million and $162 million in the quarter and year, respectively. The increases reflect new business sales.
- Commercial property NWP decreased $29 million and $68 million in the quarter and year, respectively. The decreases were primarily driven by continued competitive market pressures.
- Individual life and A&H NWP decreased $37 million and $58 million in the quarter and year, respectively. The decreases were primarily driven by lower life-contingent structured settlement sales.

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 September 30,			Nine Months Ended September 30,		
$ in Millions	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Personal Insurance	$4,547	$4,324	5.2%	$12,728	$12,100	5.2%
Commercial Insurance	2,334	2,385	(2.1)	6,897	6,860	0.5
Liberty International	829	1,065	(22.2)	2,605	2,979	(12.6)
Global Specialty	1,112	1,201	(7.4)	3,896	3,974	(2.0)
Corporate and Other	(46)	(20)	130.0	291	188	54.8
Total NWP	$8,776	$8,955	(2.0%)	$26,417	$26,101	1.2%
Foreign exchange effect on NWP change			(3.1)			(3.0)
NWP change excluding foreign exchange[1]			1.1%			4.2%

1 Determined by assuming constant foreign exchange rates between periods.

Major drivers of NWP growth were as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
$ in Millions	**2015**	**2014**	**$ Change**	**Points Attribution**	**2015**	**2014**	**$ Change**	**Points Attribution**
Total NWP[1]	$8,776	$8,955	($179)	(2.0)	$26,417	$26,101	$316	1.2
Components of growth:								
Domestic personal automobile	2,719	2,593	126	1.4	7,692	7,318	374	1.5
-Domestic homeowners	1,582	1,519	63	0.7	4,366	4,158	208	0.8
-Homeowners quota share	(41)	(39)	(2)	-	(112)	(106)	(6)	-
Total domestic homeowners	1,541	1,480	61	0.7	4,254	4,052	202	0.8
International local businesses (ex foreign exchange)[2]	1,068	1,065	3	-	3,199	2,979	220	0.8
Specialty insurance (ex foreign exchange)[2]	706	759	(53)	(0.6)	2,539	2,404	135	0.5
Global specialty reinsurance (ex foreign exchange)[2]	212	217	(5)	(0.1)	1,021	994	27	0.1
Global specialty inland marine (ex foreign exchange)[2]	121	100	21	0.2	350	339	11	-
Domestic workers compensation	476	534	(58)	(0.6)	1,511	1,604	(93)	(0.4)
Domestic individual life and A&H	104	140	(36)	(0.4)	345	397	(52)	(0.2)
Domestic group disability and group life	314	255	59	0.7	927	746	181	0.7
Surety	203	205	(2)	-	630	579	51	0.2
Foreign exchange[2]	(281)	-	(281)	(3.1)	(775)	-	(775)	(3.0)
Other commercial lines	1,593	1,607	(14)	(0.2)	4,724	4,689	35	0.2
Total NWP	$8,776	$8,955	($179)	(2.0)	$26,417	$26,101	$316	1.2

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

Consolidated NWP by geographic distribution channels was as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
U.S.	$7,385	$7,246	1.9%	$21,641	$20,903	3.5%
International[1]	1,391	1,709	(18.6)	4,776	5,198	(8.1)
Total NWP	$8,776	$8,955	(2.0%)	$26,417	$26,101	1.2%

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

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

Results of Operations – Consolidated

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Net operating income	$485	$585	(17.1%)	$997	$1,388	(28.2%)
Net realized (losses) gains, net of tax	(167)	(27)	NM	16	11	45.5
Loss on extinguishment of debt, net of tax	(1)	(19)	(94.7)	(1)	(19)	(94.7)
Discontinued operations, net of tax	(744)	66	NM	(909)	(119)	NM
Net (loss) income attributable to LMHC	($427)	$605	NM	$103	$1,261	(91.8%)

NM = Not Meaningful

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Revenues	$9,312	$9,549	(2.5%)	$28,282	$28,320	(0.1%)
PTOI before catastrophes, net incurred losses attributable to prior years, and partnerships, LLC and other equity method income	$849	$968	(12.3%)	$2,741	$2,814	(2.6%)
Catastrophes[1]	(239)	(290)	(17.6)	(1,535)	(1,452)	5.7
Net incurred losses attributable to prior years:						
- Asbestos & environmental[2]	(2)	(111)	(98.2)	(4)	(113)	(96.5)
- All other[3,4]	69	26	165.4	173	35	NM
PTOI before partnerships, LLC and other equity method income	677	593	14.2	1,375	1,284	7.1
Partnerships, LLC and other equity method income [5]	46	195	(76.4)	40	599	(93.3)
PTOI	723	788	(8.2)	1,415	1,883	(24.9)
Net realized (losses) gains	(256)	(41)	NM	22	13	69.2
Loss on extinguishment of debt	(1)	(29)	(96.6)	(1)	(29)	(96.6)
Pre-tax income	466	718	(35.1)	1,436	1,867	(23.1)
Income tax expense	154	183	(15.8)	438	506	(13.4)
Consolidated net income from continuing operations	312	535	(41.7)	998	1,361	(26.7)
Discontinued operations, net of tax	(744)	66	NM	(909)	(119)	NM
Consolidated net (loss) income	(432)	601	NM	89	1,242	(92.8)
Less: Net loss attributable to non-controlling interest	(5)	(4)	25.0	(14)	(19)	(26.3)
Net (loss) income attributable to LMHC	($427)	$605	NM	$103	$1,261	(91.8%)
Cash flow provided by (used in) operations	$1,519	($1,587)	NM	$2,653	($379)	NM

1 2015 catastrophes include all current accident year catastrophe losses for severe storms in the U.S. and New South Wales, Cyclone Niklas, Chile earthquake and Chile floods. 2014 catastrophes include all current accident year catastrophe losses for severe storms in the U.S., U.K. and Ireland floods and Hailstorm Ela. 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 nine months ended September 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 $1 million and $6 million for the three and nine months ended September 30, 2015 and ($2) million and $10 million for the same periods in 2014. Net of amortization of deferred gains on retroactive reinsurance of $1 million and $3 million for the three and nine months ended September 30, 2015 and 2014.

5 Partnerships, LLC and other equity method income includes LP, LLC and other equity method income within net investment income in the accompanying Consolidated Statements of Operations and revenue and expenses from the production and sale of oil and gas.

NM = Not Meaningful

PTOI for the three and nine months ended September 30, 2015 was $723 million and $1.415 billion, respectively, decreases of $65 million and $468 million from the same periods in 2014. Both periods benefitted from favorable net incurred losses attributable to prior years in LSM and Surety, a decrease in current accident year losses across most casualty lines, and unfavorable activity in 2014 that did not recur, including: A&E loss reserve development and losses related to the NICO Reinsurance Transaction (including a reduction to the initial loss on the transaction due to a cession of A&E loss development). The quarter was further driven by lower catastrophe losses, while the year also benefitted from a reduction in the first quarter in the estimated liability for state assessments related to workers compensation. These increases were more than offset by higher current accident year losses in Personal Insurance, higher catastrophe losses during the first six months of 2015 and lower partnerships, LLC and other equity method income primarily due to energy related investments and significant prior year IPO activity that did not recur.

Revenues for the three and nine months ended September 30, 2015 were $9.312 billion and $28.282 billion, respectively, decreases of $237 million and $38 million from the same periods in 2014. The major components of revenues are net premium earned, net investment income, net realized (losses) gains, and fee and other revenues.

Net premium earned for the three and nine months ended September 30, 2015 was $8.521 billion and $25.340 billion, respectively, increases of $64 million and $453 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 three months of 2014 primarily in Personal Insurance, partially offset by foreign exchange losses due to the strengthening of the U.S. dollar.

Net investment income for the three and nine months ended September 30, 2015 was $759 million and $2.067 billion, respectively, decreases of $45 million and $391 million from the same periods in 2014. The decreases in both periods were primarily a result of lower changes in valuations in the energy sector. In addition, valuation changes in LP and LLC private equity investments favorably impacted the quarter results while the year reflected lower valuation changes primarily due to prior year IPO activity that did not recur.

Net realized (losses) gains for the three and nine months ended September 30, 2015 were ($256) million and $22 million, respectively, versus ($41) million and $13 million in the same periods in 2014. Both periods were negatively impacted by impairments of direct investments in oil and gas wells of $250 million and $262 million, respectively. These impairment losses were more than offset in the year by equity and fixed maturity sales that occurred in 2015.

Fee and other revenues for the three and nine months ended September 30, 2015 were $288 million and $853 million, respectively, decreases of $41 million and $109 million from the same periods in 2014. The decreases primarily reflect lower oil and gas revenues, and lower third-party administrator fee income and commissions from servicing carrier operations, partially offset by higher fees associated with life policies and group disability business.

Claims, benefits and expenses for the three and nine months ended September 30, 2015 were $8.845 billion and $26.845 billion, respectively, increases of $43 million and $421 million over the same periods in 2014. Both periods benefitted from favorable incurred losses attributable to prior years, the strengthening of the U.S. dollar and significant unfavorable A&E loss development in 2014 that did not recur. The quarter was further driven by lower catastrophe losses, while the year also benefitted from a reduction in the first quarter in the estimated liability for state assessments related to workers compensation. These decreases were more than offset by higher current accident year losses in Personal Insurance, higher catastrophe losses during the first six months of 2015, depreciation, depletion, and amortization expenses related to Liberty Energy, and losses and expenses consistent with business growth.

Income tax expense on continuing operations for the three and nine months ended September 30, 2015 was $154 million and $438 million, respectively, decreases of $29 million and $68 million from the same

periods in 2014. The Company's effective tax rate on continuing operations for the three and nine months ended September 30, 2015 was 33% and 31%, respectively, compared to 25% and 27% for the same periods in 2014. The increase in the effective tax rate on continuing operations from 2014 to 2015 was primarily due to an audit settlement recorded during the third quarter of 2014. The Company's effective tax rate on continuing operations differs from the U.S. Federal statutory rate of 35% principally due to tax-exempt investment income partially offset by non-U.S. operations. Prior period amounts have also been updated to reflect the 2015 adoption of the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2014-01 related to qualified affordable housing projects. Under this standard, investments in qualified affordable housing projects are accounted for using the proportional amortization method and the net investment performance is reported as a component of income tax expense.

Net operating income for the three and nine months ended September 30, 2015 was $485 million and $997 million, respectively, decreases of $100 million and $391 million from the same periods in 2014.

Discontinued operations, net of tax for the three and nine months ended September 30, 2015 were ($744) million and ($909) million, respectively, versus $66 million and ($119) million in the same periods in 2014. The current year reflects the Venezuelan operations, while the prior year also includes Summit and the Argentina operations.

Net (loss) income attributable to LMHC for the three and nine months ended September 30, 2015 was ($427) million and $103 million, respectively, versus $605 million and $1.261 billion in the same periods in 2014.

Cash flow provided by operations for the three and nine months ended September 30, 2015 was $1.519 billion and $2.653 billion, respectively, versus cash used of $1.587 billion and $379 million in the same periods in 2014. The increases in both periods were primarily driven by the funding of the NICO Reinsurance Transaction in 2014 that did not recur.

	Three Months Ended September 30,			Nine Months Ended September 30,		
CONSOLIDATED	**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	62.1%	61.5%	0.6	61.1%	61.8%	(0.7)
Underwriting expense ratio	31.3	30.7	0.6	31.5	30.8	0.7
Dividend ratio	0.1	-	0.1	0.1	-	0.1
Subtotal	93.5	92.2	1.3	92.7	92.6	0.1
Catastrophes[1]	2.9	3.6	(0.7)	6.4	6.2	0.2
Net incurred losses attributable to prior years						
- Asbestos & environmental	0.1	1.3	(1.2)	-	0.5	(0.5)
- All other[2,3]	(0.9)	(0.3)	(0.6)	(0.6)	(0.2)	(0.4)
Total combined ratio[4]	95.6%	96.8%	(1.2)	98.5%	99.1%	(0.6)

1 2015 catastrophes include all current accident year catastrophe losses for severe storms in the U.S. and New South Wales, Cyclone Niklas, Chile earthquake and Chile floods. 2014 catastrophes include all current accident year catastrophe losses for severe storms in the U.S., U.K. and Ireland floods and Hailstorm Ela. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

2 The nine months ended September 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 and amortization of deferred gains on retroactive reinsurance.

4 The combined ratio, expressed as a percentage, is a measure of underwriting profitability. This measure should only be used in conjunction with, and not in lieu of, underwriting income and may not be comparable to other performance measures used by the Company's competitors. The combined ratio is computed as the sum of the following property and casualty ratios: the ratio of claims and claim adjustment expense less managed care income to earned premium; the ratio to earned premium of insurance operating costs plus amortization of deferred policy acquisition costs less third-party administration income and 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 nine months ended September 30, 2015 was 93.5% and 92.7%, respectively, increases of 1.3 points and 0.1 points over the same periods in 2014. The increases in the underwriting expense ratio for both periods were primarily driven by higher employee related costs, advertising expenses, and investments in technology. The increase in the claims and claim adjustment expense ratio for the quarter was primarily driven by higher current accident year non-catastrophe homeowners losses in Personal Insurance and higher non-catastrophe property losses in Commercial Insurance. The decrease in the claims and claim adjustment expense ratio for the year was primarily driven by improved current accident year losses across most casualty lines of business and lower non-catastrophe property losses in the first six months in Commercial Insurance.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three and nine months ended September 30, 2015 was 95.6% and 98.5%, respectively, improvements of 1.2 points and 0.6 points over the same periods in 2014. Both periods reflect the changes in the combined ratio previously discussed and were further impacted by favorable net incurred losses attributable to prior years primarily driven by LSM and Surety, and unfavorable A&E loss development in 2014 that did not recur. The quarter was further impacted by lower catastrophe losses, while the year experienced higher catastrophe losses offset by 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 2,200 licensed captive sales representatives, more than 600 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 September 30,			Nine Months Ended September 30,		
$ in Millions	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Personal Lines	$2,549	$2,435	4.7%	$7,199	$6,852	5.1%
Safeco	1,998	1,889	5.8	5,529	5,248	5.4
Total NWP	$4,547	$4,324	5.2%	$12,728	$12,100	5.2%

Personal Insurance NWP by line of business was as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Private passenger automobile	$2,703	$2,576	4.9%	$7,610	$7,283	4.5%
Homeowners and other	1,844	1,748	5.5	5,118	4,817	6.2
Total NWP	$4,547	$4,324	5.2%	$12,728	$12,100	5.2%

NWP for the three and nine months ended September 30, 2015 was $4.547 billion and $12.728 billion, respectively, increases of $223 million and $628 million over the same periods in 2014.

Private passenger automobile NWP for the three and nine months ended September 30, 2015 was $2.703 billion and $7.610 billion, respectively, increases of $127 million and $327 million over the same periods in 2014. The growth reflects a 4.7% increase in average written premiums (resulting from rate and model year increases) and, to a lesser extent, growth in policies in-force of 0.3% as compared to September 30, 2014.

Homeowners and other NWP for the three and nine months ended September 30, 2015 was $1.844 billion and $5.118 billion, respectively, increases of $96 million and $301 million over the same periods in 2014. The growth reflects a 4.9% increase in homeowners average written premiums (resulting from rate and coverage increases) and growth in homeowners policies in-force of 0.7% as compared to September 30, 2014.

Results of Operations – Personal Insurance

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Revenues	$4,321	$4,104	5.3%	$12,673	$11,960	6.0%
PTOI before catastrophes and net incurred losses attributable to prior years	$703	$707	(0.6%)	$2,116	$2,005	5.5%
Catastrophes[1]	(152)	(64)	137.5	(1,221)	(979)	24.7
Net incurred losses attributable to prior years	(14)	(5)	180.0	(10)	(41)	(75.6)
PTOI	$537	$638	(15.8%)	$885	$985	(10.2%)

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

PTOI for the three and nine months ended September 30, 2015 was $537 million and $885 million, respectively, decreases of $101 million and $100 million from the same periods in 2014. The decrease in the quarter was driven by higher catastrophe losses due to an internal reinsurance treaty in 2014 that did not recur in 2015, an increase in current accident year non-catastrophe homeowners losses and to a lesser extent auto physical damage losses, and a higher expense ratio. The decrease in the year was driven by higher catastrophe losses, an increase in current accident year non-catastrophe auto physical damage losses, and a higher expense ratio, partially offset by lower current accident year non-catastrophe homeowners losses due to fewer large fire losses and unfavorable net incurred losses attributable to prior years in auto liability in 2014 that did not recur. Both periods were also positively impacted by profit margin on growth in earned premium.

Revenues for the three and nine months ended September 30, 2015 were $4.321 billion and $12.673 billion, respectively, increases of $217 million and $713 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 nine months ended September 30, 2015 was $4.132 billion and $12.118 billion, respectively, increases of $203 million and $670 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 three months of 2014.

Net investment income for the three and nine months ended September 30, 2015 was $157 million and $461 million, respectively, increases of $13 million and $39 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 nine months ended September 30, 2015 were $3.784 billion and $11.788 billion, respectively, increases of $318 million and $813 million over the same periods in 2014. The increase in the quarter was driven by higher catastrophe losses due to an internal reinsurance treaty in 2014 that did not recur in 2015 and an increase in current accident year non-catastrophe homeowners losses. The increase in the year was driven by higher catastrophe losses and an increase in current accident year non-catastrophe auto physical damage losses, partially offset by higher incurred losses attributable to prior years in auto liability in 2014 that did not recur. Both periods were also impacted by business growth and higher underwriting expenses driven by advertising.

PERSONAL INSURANCE	Three Months Ended September 30, 2015	2014	Change (Points)	Nine Months Ended September 30, 2015	2014	Change (Points)
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	60.6%	59.7%	0.9	60.3%	60.2%	0.1
Underwriting expense ratio	25.6	25.2	0.4	25.5	25.3	0.2
Subtotal	86.2	84.9	1.3	85.8	85.5	0.3
Catastrophes[1]	3.7	1.7	2.0	10.0	8.6	1.4
Net incurred losses attributable to prior years	0.3	0.1	0.2	0.1	0.4	(0.3)
Total combined ratio	90.2%	86.7%	3.5	95.9%	94.5%	1.4

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

The Personal Insurance combined ratio before catastrophes and net incurred losses attributable to prior years for the three and nine months ended September 30, 2015 was 86.2% and 85.8%, respectively, increases of 1.3 points and 0.3 points over the same periods in 2014. The increases in the claims and claim adjustment expense ratio were driven by higher current accident year non-catastrophe homeowners losses in the quarter and higher current accident year non-catastrophe auto physical damage losses in both periods. Both periods reflect higher advertising expenses but were positively 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 nine months ended September 30, 2015 was 90.2% and 95.9%, respectively, increases of 3.5 points and 1.4 points over the same periods in 2014. The increases in both periods were driven by higher catastrophe losses and the changes in the combined ratio previously discussed. The increase in the year was 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 September 30,			Nine Months Ended September 30,		
$ in Millions	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Business Insurance	$1,336	$1,387	(3.7%)	$3,891	$3,956	(1.6%)
National Insurance	541	582	(7.0)	1,622	1,636	(0.9)
Liberty Mutual Benefits	418	394	6.1	1,270	1,143	11.1
Other Commercial Insurance	39	22	77.3	114	125	(8.8)
Total NWP	$2,334	$2,385	(2.1%)	$6,897	$6,860	0.5%

Commercial Insurance NWP by line of business was as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Commercial multiple-peril	$556	$552	0.7%	$1,569	$1,532	2.4%
Workers compensation - Voluntary	476	551	(13.6)	1,400	1,483	(5.6)
Workers compensation - Involuntary	26	11	136.4	73	90	(18.9)
Commercial automobile	377	376	0.3	1,111	1,093	1.6
General liability	306	314	(2.5)	915	912	0.3
Group disability and group life	314	254	23.6	925	746	24.0
Individual life and A&H	104	140	(25.7)	345	397	(13.1)
Commercial property	175	187	(6.4)	559	607	(7.9)
Total NWP	$2,334	$2,385	(2.1%)	$6,897	$6,860	0.5%

NWP for the three and nine months ended September 30, 2015 was $2.334 billion and $6.897 billion, respectively, a decrease of $51 million and an increase of $37 million versus the same periods in 2014. Both periods were impacted by decreases in voluntary workers compensation, lower life-contingent structured settlement sales and lower property premium due to continued competitive market pressures, partially offset by higher group disability and group life premium due to strong new business sales and rate increases across all property and casualty lines of business. The year was further impacted by an increase in premium related to retrospectively rated contracts, partially offset by lower involuntary workers compensation premium assumed from state pools due to decreased market share.

Results of Operations – Commercial Insurance

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Revenues	$2,797	$2,758	1.4%	$8,373	$8,281	1.1%
PTOI before catastrophes and net incurred losses attributable to prior years	$269	$341	(21.1%)	$926	$949	(2.4%)
Catastrophes[1]	(29)	(50)	(42.0)	(217)	(282)	(23.0)
Net incurred losses attributable to prior years[2,3]	2	12	(83.3)	93	50	86.0
PTOI	$242	$303	(20.1%)	$802	$717	11.9%

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 nine months ended September 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 zero and $4 million for the three and nine months ended September 30, 2015 and ($4) million and $17 million for the same periods in 2014. Net of amortization of deferred gains on assumed retroactive reinsurance of zero and $1 million for the three and nine months ended September 30, 2015 and 2014.

PTOI for the three and nine months ended September 30, 2015 was $242 million and $802 million, respectively, a decrease of $61 million and an increase of $85 million versus the same periods in 2014. Both periods reflect improved current accident year losses across most casualty lines of business and lower catastrophe losses. These increases were more than offset in the quarter by higher non-catastrophe property losses, favorable development on prior accident year losses during 2014 that did not recur, and higher costs related to variable compensation and information technology. The increase in the year also reflects a reduction in the estimated prior years' liability for state assessments related to workers compensation and lower non-catastrophe property losses during the first six months of 2015, partially offset by favorable development on prior accident year losses during 2014 that did not recur and higher costs related to variable compensation and information technology.

Revenues for the three and nine months ended September 30, 2015 were $2.797 billion and $8.373 billion, respectively, increases of $39 million and $92 million over the same periods in 2014. The major components of revenues are net premium earned, net investment income, net realized losses, and fee and other revenues.

Net premium earned for the three and nine months ended September 30, 2015 was $2.285 billion and $6.817 billion, respectively, increases of $35 million and $58 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 over the prior twelve months.

Net investment income for the three and nine months ended September 30, 2015 was $390 million and $1.158 billion, respectively, increases of $7 million and $19 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 a lower investment yield.

Net realized losses were $14 million for both the three and nine months ended September 30, 2015, increases of $8 million and $6 million over the same periods in 2014.

Fee and other revenues for the three and nine months ended September 30, 2015 were $136 million and $412 million, respectively, increases of $5 million and $21 million over the same periods in 2014. The increases in both periods reflect higher fees associated with life 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 nine months ended September 30, 2015 were $2.569 billion and $7.585 billion, respectively, increases of $108 million and $13 million over the same periods in 2014. The increases in both periods were driven by claims, benefits and expenses related to business growth in Liberty Mutual Benefits, favorable development on prior accident year losses during 2014 that did not recur and higher costs related to variable compensation and information technology. These increases were partially offset by improved current accident year losses across most casualty lines of business and lower catastrophe losses. The quarter was also adversely impacted by higher non-catastrophe property losses. The year further reflects a reduction in the estimated prior years' liability for state assessments related to workers compensation and lower non-catastrophe property losses during the first six months of 2015.

	Three Months Ended September 30,			**Nine Months Ended September 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	62.8%	61.7%	1.1	61.6%	63.6%	(2.0)
Underwriting expense ratio	35.9	33.3	2.6	34.8	32.9	1.9
Dividend ratio	0.1	0.1	-	0.1	0.1	-
Subtotal	98.8	95.1	3.7	96.5	96.6	(0.1)
Catastrophes[1]	1.6	2.7	(1.1)	3.9	5.0	(1.1)
Net incurred losses attributable to prior years[2,3]	(0.1)	(0.6)	0.5	(1.6)	(0.9)	(0.7)
Total combined ratio	100.3%	97.2%	3.1	98.8%	100.7%	(1.9)

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 nine months ended September 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 nine months ended September 30, 2015 was 98.8% and 96.5%, respectively, an increase of 3.7 points and a decrease of 0.1 points versus the same periods in 2014. Both periods were impacted by an increase in the underwriting expense ratio driven by higher variable compensation and information technology costs, along with higher operating costs versus flat and declining property and casualty earned premiums in the quarter and year to date. The quarter was further impacted by an increase in the claims and claim adjustment expense ratio due primarily to higher non-catastrophe property losses. The decrease in the claims and claim adjustment expense ratio for the year was driven by improved current accident year losses across most casualty lines of business and lower non-catastrophe property losses during the first six months of 2015.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three and nine months ended September 30, 2015 was 100.3% and 98.8%, respectively, an increase of 3.1 points and a decrease of 1.9 points versus the same periods in 2014. Both periods reflect the changes in the combined ratio previously discussed as well as lower current accident year catastrophe losses, partially offset by favorable net incurred losses attributable to prior years in 2014 that did not recur. The year was further impacted 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: Latin America and Iberia, including, Brazil, Colombia, Chile, Ecuador, Spain and Portugal; Emerging Europe, including Turkey, Poland, and 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. Private passenger automobile insurance is the single largest line of business.

On June 25, 2015, the Company announced its plans to withdraw from the personal motor insurance market in Great Britain and make significant changes to its operations in Ireland. On July 23, 2015, the Company sold its Great Britain 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.

Effective September 30, 2015, the Company determined it was appropriate to deconsolidate the Venezuelan operations. Concurrent with this decision, the Company has classified the Venezuelan operations and the related impairment charge as discontinued operations and held for sale. For further detail, see the Consolidated Results of Operations section. All prior periods have been adjusted to reflect this change.

Liberty International NWP by market segment was as follows:

	Three Months Ended September 30,				**Nine Months Ended September 30,**			
$ in Millions	**2015**	**2014**	**Change**	**Change ex. foreign exchange[1]**	**2015**	**2014**	**Change**	**Change ex. foreign exchange[1]**
Latin America and Iberia	$541	$741	(27.0%)	(0.5%)	$1,712	$2,096	(18.3%)	4.9%
Asia	124	129	(3.9)	6.1	377	326	15.6	21.0
Emerging Europe	102	138	(26.1)	(12.4)	322	388	(17.0)	(1.4)
Large Emerging Markets	57	57	-	18.1	163	168	(3.0)	13.4
Other	5	-	NM	NM	31	1	NM	NM
Total NWP	$829	$1,065	(22.2%)	0.3%	$2,605	$2,979	(12.6%)	7.4%

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

Liberty International NWP by line of business was as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Private passenger automobile	$533	$672	(20.7%)	$1,667	$1,901	(12.3%)
Commercial automobile	49	70	(30.0)	173	191	(9.4)
Homeowners	36	61	(41.0)	136	176	(22.7)
Life and health	76	89	(14.6)	235	260	(9.6)
Commercial property	14	29	(51.7)	23	41	(43.9)
Other[1]	121	144	(16.0)	371	410	(9.5)
Total NWP	$829	$1,065	(22.2%)	$2,605	$2,979	(12.6%)

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

NWP for the three and nine months ended September 30, 2015 was $829 million and $2.605 billion, respectively, decreases of $236 million and $374 million over the same periods in 2014. Both periods reflect the significant negative impact of foreign exchange driven by the strengthening of the U.S. dollar, a change in terms of a large reinsurance contract in Portugal, and the exit from the personal general insurance market in Great Britain. These decreases were partially offset by internal reinsurance program changes and local currency growth in Brazil due to an increase in private passenger auto business, Colombia driven by positive growth in most lines of business, Spain as a result of an increase in private passenger auto and homeowners business, and the acquisition of Malaysia in the third quarter of 2014. Further discussion of the Malaysia acquisition and the Great Britain transaction can be found in the Consolidated Results of Operations section.

Results of Operations – Liberty International

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Revenues	$934	$1,129	(17.3%)	$2,869	$3,252	(11.8%)
Mature operations and other[1] PTOI before catastrophes and net incurred losses attributable to prior years	$30	$30	-	$72	$43	67.4%
Emerging operations[2] pre-tax operating loss before catastrophes and net incurred losses attributable to prior years	(27)	(21)	28.6	(108)	(76)	42.1
Catastrophes[3]	(8)	-	NM	(13)	(9)	44.4
Net incurred losses attributable to prior years	-	16	(100.0)	(20)	36	NM
Pre-tax operating (loss) income	($5)	$25	NM	($69)	($6)	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 and Chile earthquake. 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 nine months ended September 30, 2015 was $5 million and $69 million, respectively, versus PTOI of $25 million for the three months ended September 30, 2014 and a pre-tax operating loss of ($6) million for the nine months ended September 30, 2014. Both periods reflect catastrophes and large losses in Chile and favorable net incurred losses attributable to prior years in 2014 that did not recur. The year was further impacted by restructuring costs and net incurred losses attributable

to prior years in Ireland, partially offset by the addition of Malaysia (acquired in the third quarter of 2014) and favorable auto frequency and health severity in Brazil.

Revenues for the three and nine months ended September 30, 2015 were $934 million and $2.869 billion, respectively, decreases of $195 million and $383 million from the same periods in 2014. The primary components of revenues are net premium earned and net investment income.

Net premium earned for the three and nine months ended September 30, 2015 was $840 million and $2.600 billion, respectively, decreases of $187 million and $364 million from the same periods in 2014. The decreases were primarily due to lower premium earned associated with the lower NWP primarily driven by foreign exchange due to the strengthening of the U.S. dollar, partially offset by local currency growth in certain operations as previously discussed.

Net investment income for the three and nine months ended September 30, 2015 was $64 million and $190 million, respectively, decreases of $7 million and $22 million from the same periods in 2014. The decreases were primarily due to the strengthening of the U.S. dollar, partially offset by higher interest rates in Brazil.

Claims, benefits and expenses for the three and nine months ended September 30, 2015 were $938 million and $2.931 billion, respectively, decreases of $162 million and $318 million from the same periods in 2014. The decreases in both periods were primarily driven by the strengthening of the U.S. dollar, partially offset by catastrophe and large losses in Chile and favorable incurred losses attributable to prior years in 2014 that did not recur. The year was further impacted by restructuring costs, incurred losses attributable to prior years in Ireland, and the addition of Malaysia (acquired in the third quarter of 2014).

	Three Months Ended September 30,			**Nine Months Ended September 30,**		
LIBERTY INTERNATIONAL	**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	65.6%	64.6%	1.0	65.1%	65.6%	(0.5)
Underwriting expense ratio	42.0	40.9	1.1	43.5	41.8	1.7
Subtotal	107.6	105.5	2.1	108.6	107.4	1.2
Catastrophes[1]	0.9	0.1	0.8	0.5	0.3	0.2
Net incurred losses attributable to prior years	-	(1.6)	1.6	0.8	(1.2)	2.0
Total combined ratio	108.5%	104.0%	4.5	109.9%	106.5%	3.4

1 2015 catastrophes include all current accident year catastrophe losses for Chile floods and Chile earthquake. 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 nine months ended September 30, 2015 was 107.6% and 108.6%, respectively, increases of 2.1 points and 1.2 points over the same periods in 2014. The increases in both periods were primarily driven by increases in the underwriting expense ratios due to Ireland restructuring costs. The quarter was further impacted by a 1.0 point increase in the claims and claim adjustment expense ratio due to large losses in Chile.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three and nine months ended September 30, 2015 was 108.5% and 109.9%, respectively, increases of 4.5 points and 3.4 points over the same periods in 2014. Both periods reflect the changes in the combined ratio previously discussed, as well as catastrophe losses related to the Chile earthquake in the third quarter of 2015 and favorable net incurred losses attributable to prior years in 2014 that did not recur. The year was further impacted by Chile floods in the second quarter of 2015 and unfavorable net incurred losses attributable to prior years in Ireland.

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 September 30,			Nine Months Ended September 30,		
$ in Millions	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
LSM	$549	$606	(9.4%)	$2,137	$2,163	(1.2%)
LIU	333	357	(6.7)	1,022	1,148	(11.0)
LM Surety	196	203	(3.4)	610	570	7.0
Other	34	35	(2.9)	127	93	36.6
Total NWP	$1,112	$1,201	(7.4%)	$3,896	$3,974	(2.0%)
Foreign exchange effect on growth			(3.5)			(4.2)
NWP growth excluding foreign exchange[1]			(3.9%)			2.2%

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 September 30,			Nine Months Ended September 30,		
$ in Millions	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Specialty insurance	$593	$679	(12.7%)	$1,969	$2,064	(4.6%)
Reinsurance	203	217	(6.5)	972	994	(2.2)
Surety	200	205	(2.4)	622	577	7.8
Inland marine	116	100	16.0	333	339	(1.8)
Total NWP	$1,112	$1,201	(7.4%)	$3,896	$3,974	(2.0%)

NWP for the three and nine months ended September 30, 2015 was $1.112 billion and $3.896 billion, respectively, decreases of $89 million and $78 million from the same periods in 2014. The decreases in both periods reflect re-underwriting and pricing actions for selective products in specialty insurance, competitive market conditions and foreign exchange impact due to the strengthening of the U.S. dollar. These decreases were partially offset by internal reinsurance program changes and LSM specialty insurance business growth in other selective products. The quarter was positively impacted by inland marine growth and the year was positively impacted by international growth in LM Surety (including Primero Fianzas acquisition in July 2014).

Results of Operations – Global Specialty

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Revenues	$1,312	$1,286	2.0%	$3,940	$3,844	2.5%
PTOI before catastrophes and net incurred losses attributable to prior years	$119	$153	(22.2%)	$447	$493	(9.3%)
Catastrophes [1]	(13)	(10)	30.0	(52)	(31)	67.7
Net incurred losses attributable to prior years [2]	58	(23)	NM	86	(39)	NM
PTOI	$164	$120	36.7%	$481	$423	13.7%

1 2015 catastrophes include all current accident year catastrophe losses for severe storms in the U.S. and New South Wales, Cyclone Niklas, and Chile earthquake. 2014 catastrophes include all current accident year catastrophe losses for severe storms in the U.S., U.K. floods and Hailstorm Ela. 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 nine months ended September 30, 2015 and zero and $9 million for the same periods in 2014.

NM=Not Meaningful

PTOI for the three and nine months ended September 30, 2015 was $164 million and $481 million, respectively, increases of $44 million and $58 million over the same periods in 2014. Both periods reflect favorable net incurred losses attributable to prior years partially offset by higher catastrophe losses, higher current year attritional and non-catastrophe large losses primarily within LSM and LM Surety, and higher underwriting expenses due to investments in technology and additional employees.

Revenues for the three and nine months ended September 30, 2015 were $1.312 billion and $3.940 billion, respectively, increases of $26 million and $96 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 nine months ended September 30, 2015 was $1.219 billion and $3.664 billion, respectively, increases of $24 million and $79 million over the same periods in 2014. The increases in both periods primarily reflect the earnings on NWP growth in prior periods.

Net investment income for the three and nine months ended September 30, 2015 was $84 million and $252 million, respectively, a decrease of $1 million and an increase of $2 million versus the same periods in 2014.

Claims, benefits and expenses for the three and nine months ended September 30, 2015 were $1.148 billion and $3.450 billion, respectively, a decrease of $16 million and an increase of $30 million versus the same periods in 2014. Both periods were impacted by favorable incurred losses attributable to prior years, higher catastrophe losses, higher current year attritional and non-catastrophe large losses primarily within LSM and LM Surety, partially offset by LIU U.S. current year loss activity in 2014 that did not recur and higher underwriting expenses due to investments in technology and additional employees. The decrease in the quarter and increase in the year were due to the weighting of the above drivers.

GLOBAL SPECIALTY	Three Months Ended September 30,			Nine Months Ended September 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	63.7%	61.1%	2.6	60.0%	59.5%	0.5
Underwriting expense ratio	33.3	32.5	0.8	34.1	32.7	1.4
Dividend ratio	0.2	0.2	-	0.2	0.2	-
Subtotal	97.2	93.8	3.4	94.3	92.4	1.9
Catastrophes [1]	1.0	0.8	0.2	1.4	0.9	0.5
Net incurred losses attributable to prior years[2]	(4.7)	2.0	(6.7)	(2.4)	1.1	(3.5)
Total combined ratio	93.5%	96.6%	(3.1)	93.3%	94.4%	(1.1)

1 2015 catastrophes include all current accident year catastrophe losses for severe storms in the U.S. and New South Wales, Cyclone Niklas, and Chile earthquake. 2014 catastrophes include all current accident year catastrophe losses for severe storms in the U.S., U.K. floods and Hailstorm Ela. 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 nine months ended September 30, 2015 was 97.2% and 94.3%, respectively, increases of 3.4 points and 1.9 points over the same periods in 2014. For both periods, the increases in the claims and claim adjustment expense ratio reflect higher current year attritional and non-catastrophe large losses primarily within LSM and LM Surety, partially offset by LIU U.S. current year loss activity in 2014 that did not recur. The increases were further impacted by the increased weighting of inland marine relative to the total SBU in the quarter and inland marine program changes for the year. The increases in the underwriting expense ratio were primarily due to the increased weighting of LM Surety relative to the total SBU as well as investments in technology and additional employees.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three and nine months ended September 30, 2015 was 93.5% and 93.3%, respectively, decreases of 3.1 points and 1.1 points from the same periods in 2014. The decreases in both periods reflect favorable net incurred losses attributable to prior years driven primarily by LSM and Surety, partially offset by the increases in the combined ratio mentioned above and higher catastrophe losses.

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.

- Effective January 1, 2015, Corporate and Commercial Insurance entered into a new agreement including certain pre-2014 voluntary and involuntary workers compensation claims. The covered business aligns with the workers compensation business covered by the retroactive reinsurance agreement defined as the NICO Reinsurance Transaction, which is described further in “Reinsurance Recoverables.”

- 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 September 30,			Nine Months Ended September 30,		
$ in Millions	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Reinsurance, net	($18)	$7	NM	$256	$137	86.9%
Workers compensation - Voluntary[1]	(28)	(28)	-	34	48	(29.2)
Other	-	1	(100.0)	1	3	(66.7)
Total NWP	($46)	($20)	130.0%	$291	$188	54.8%

[1] Booked as billed adjustment.

NWP for the three and nine months ended September 30, 2015 was ($46) million and $291 million, respectively, a decrease of $26 million and an increase of $103 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.

Results of Operations – Corporate and Other

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Revenues	($52)	$272	NM	$427	$983	(56.6%)
Pre-tax operating loss before catastrophes, net incurred losses attributable to prior years, and partnerships, LLC and other equity method income	($245)	($242)	1.2%	($712)	($600)	18.7%
Catastrophes[1]	(37)	(166)	(77.7)	(32)	(151)	(78.8)
Net incurred losses attributable to prior years:						
- Asbestos & environmental[2]	(2)	(111)	(98.2)	(4)	(113)	(96.5)
- All other[3]	23	26	(11.5)	24	29	(17.2)
Pre-tax operating loss before partnerships, LLC and other equity method income	(261)	(493)	(47.1)	(724)	(835)	(13.3)
Partnerships, LLC and other equity method income[4]	46	195	(76.4)	40	599	(93.3)
Pre-tax operating loss	($215)	($298)	(27.9%)	($684)	($236)	189.8%

1 2015 catastrophes include all current accident year catastrophe losses for severe storms in the U.S., Chile earthquake and Chile floods. 2014 catastrophes include all current accident year catastrophe losses for severe storms in the U.S. and Hailstorm Ela. 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 nine months ended September 30, 2015 and $2 million and ($16) 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 nine months ended September 30, 2015 and $1 million and $2 million for the same periods in 2014.
4 Partnerships, LLC and other equity method income includes LP, LLC and other equity method income within net investment income in the accompanying Consolidated Statements of Operations and revenue and expenses from the production and sale of oil and gas.
NM = Not Meaningful

Pre-tax operating loss for the three and nine months ended September 30, 2015 was $215 million and $684 million, respectively, a decrease of $83 million and an increase of $448 million versus the same periods in 2014. The changes in both periods reflect unfavorable results in 2014 that did not recur, including: A&E loss reserve development, losses related to the NICO Reinsurance Transaction (including a reduction to the initial loss on the transaction due to a cession of A&E loss development) and unfavorable results related to internal reinsurance programs. These decreases were more than offset in the year and partially offset in the quarter by lower net investment income, further reductions in oil and gas production operations' PTOI (driven by lower prices), and a loss in the current period due to the write-off of certain prepaid assets.

Revenues for the three and nine months ended September 30, 2015 were ($52) million and $427 million, respectively, decreases of $324 million and $556 million from the same periods in 2014. The major components of revenues are net premium earned, net investment income, net realized (losses) gains, and fee and other revenues.

Net premium earned for the three and nine months ended September 30, 2015 was $45 million and $141 million, respectively, a decrease of $11 million and an increase of $10 million versus the same periods in 2014. The changes in both periods were negatively impacted by an internal reinsurance program in 2014 that did not recur. This was offset in the year due to earnings on NWP growth in prior periods outpacing the reduction in NWP in the third quarter.

Net investment income for the three and nine months ended September 30, 2015 was $64 million and $6 million, respectively, decreases of $57 million and $429 million from the same periods in 2014. The decreases in both periods were primarily a result of lower changes in valuations in the energy sector. In addition, valuation changes in LP and LLC private equity investments favorably impacted the quarter results while the year reflected lower valuation changes primarily due to prior year IPO activity that did not recur.

Net realized (losses) gains for the three and nine months ended September 30, 2015 were ($243) million and $20 million, respectively, versus ($41) million and $11 million in the same periods in 2014. Both periods were negatively impacted by impairments of direct investments in oil and gas wells of $250 million and $262 million, respectively. These impairment losses were more than offset in the year by equity and fixed maturity sales that occurred in 2015.

Fee and other revenues for the three and nine months ended September 30, 2015 were $82 million and $260 million, respectively, decreases of $54 million and $146 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 nine months ended September 30, 2015 were $406 million and $1.091 billion, respectively, decreases of $205 million and $117 million from the same periods in 2014. The changes in both periods reflect unfavorable results in 2014 that did not recur, including: A&E loss development, losses related to the NICO Reinsurance Transaction (including a reduction to the initial loss on the transaction due to a cession of A&E loss development) and unfavorable results related to internal reinsurance programs. Partially offsetting these results were reinsurance program growth resulting from the centralization of external reinsurance purchasing, a loss in the current period due to the write-off of certain prepaid assets, depreciation, depletion, and amortization expenses related to Liberty Energy, and higher interest expense.

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 advisor 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 September 30, 2015 and December 31, 2014:

$ in Millions	As of September 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	$63,293	80.9%	$63,176	80.9%
Equity securities, available for sale, at fair value	2,776	3.5	3,145	4.0
LPs, LLCs and other equity method investments	4,951	6.3	4,752	6.1
Commercial mortgage loans	2,222	2.8	1,808	2.3
Short-term investments	274	0.4	626	0.8
Other investments	671	0.9	621	0.8
Cash and cash equivalents	4,042	5.2	4,003	5.1
Total invested assets	$78,229	100.0%	$78,131	100.0%

Total invested assets as of September 30, 2015 were $78.229 billion, an increase of $98 million or 0.1% over December 31, 2014. The increase reflects new commercial mortgage loan investments and purchases of fixed maturities made throughout the year, partially offset by the unfavorable impact of widening spreads, negative market performance of equities, and the strengthening U.S. dollar.

Fixed maturities as of September 30, 2015 were $63.293 billion, an increase of $117 million or 0.2% over December 31, 2014. The increase reflects purchases of fixed maturities made throughout the year, partially offset by the unfavorable impact of widening spreads and the strengthening U.S. dollar. As of September 30, 2015, included in fixed maturities are commitments to purchase various residential mortgage-backed securities at a cost and fair value of $124 million, and various corporate and municipal securities at a cost of $198 million and fair value of $199 million.

Equity securities as of September 30, 2015 were $2.776 billion ($2.442 billion common stock and $334 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 $369 million or 11.7% from December 31, 2014. Of the $2.442 billion of common stock at September 30, 2015, $443 million relates to securities associated with non-guaranteed unit linked products where the policyholder bears the investment risk. The decrease in total equity securities was primarily due to sales, and negative market performance.

LPs, LLCs and other equity method investments as of September 30, 2015 were $4.951 billion, an increase of $199 million or 4.2% over December 31, 2014. These investments consist of traditional private equity partnerships of $2.297 billion, natural resources partnerships of $718 million ($517 million related to energy investments), real estate partnerships of $501 million, other partnerships of $1.186 billion, and other equity method investments of $249 million ($247 million of which is related to natural resources). 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 September 30, 2015 were $2.222 billion (net of $10 million of loan loss reserves or 0.5% of the outstanding loan portfolio), an increase of $414 million or 22.9% over December 31, 2014. The increase primarily reflects $565 million in funding and a decrease of $4 million to the loan loss reserve, partially offset by $155 million in principal reductions. The entire commercial loan portfolio is U.S. based. As of September 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 4,746 at September 30, 2015.

Short-term investments as of September 30, 2015 were $274 million, a decrease of $352 million or 56.2% from December 31, 2014. The decrease reflects sales and maturities of short-term holdings across the Company's international operations.

Other investments as of September 30, 2015 were $671 million, an increase of $50 million or 8.1% over December 31, 2014. The increase was primarily related to purchases and valuation gains on investments.

As of September 30, 2015, the Company had unfunded commitments in traditional private equity partnerships, natural resources, real estate, and other of $1.334 billion, $2.564 billion ($2.535 billion of which is related to energy investments), $460 million, and $1.089 billion, respectively. The majority of energy commitments are subject to contractual price floors. If certain price targets are not met, the Company is not required to fund these investments until pricing improves. Due to current market conditions, energy prices would need to increase significantly in order for these commitments to become callable.

Regarding fair value measurements, as of September 30, 2015, excluding other assets, the Company reflected $4.727 billion (7.0%) as level 1 (quoted prices in active markets) primarily consisting of U.S. Treasuries and common equity securities. The majority of the Company's invested assets are reported as level 2 (quoted prices from other observable inputs). As of September 30, 2015, the Company reported $60.924 billion (91.0%) as level 2, consisting primarily of fixed maturity securities. Finally, the Company reported $1.309 billion (2.0%) as level 3 (unobservable inputs), primarily consisting of international and privately held securities for which a market price is not readily observable.

As of September 30, 2015, no single issuer, excluding U.S. Treasuries, agency securities and mortgage-backed securities, accounted for more than 0.6% of invested assets. As of September 30, 2015, investments in the energy sector accounted for $3.170 billion or 4.1% of total invested assets. These investments consist of investment grade bonds of $2.234 billion, bonds that were rated below investment grade of $285 million, publicly traded equity securities of $124 million, and natural resources partnerships and other equity method investments of $527 million. In addition, the Company has direct investments in oil and gas wells of $1.556 billion which are included in Other assets on the Consolidated Balance Sheets. Unfunded energy investment commitments as of September 30, 2015 were $2.535 billion, of which, $744 million and $1.791 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 September 30, 2015 and December 31, 2014:

$ in Millions **September 30, 2015**	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agency securities	$2,870	$167	($3)	$3,034
Residential MBS [1]	7,336	262	(7)	7,591
Commercial MBS	1,670	37	(5)	1,702
Other MBS and ABS [2]	3,156	77	(5)	3,228
U.S. state and municipal	13,115	725	(43)	13,797
Corporate and other	28,955	1,193	(462)	29,686
Foreign government securities	4,085	210	(40)	4,255
Total fixed maturities	61,187	2,671	(565)	63,293
Common stock	2,194	395	(147)	2,442
Preferred stock	379	14	(59)	334
Total equity securities	2,573	409	(206)	2,776
Total securities available for sale	$63,760	$3,080	($771)	$66,069

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	$2,943	$192	($10)	$3,125
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	26,977	1,663	(146)	28,494
Foreign government securities	4,752	260	(24)	4,988
Total fixed maturities	59,951	3,470	(245)	63,176
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	$62,554	$4,128	($361)	$66,321

The following table summarizes the Company's mortgage and asset-backed fixed maturity portfolio by credit quality as of September 30, 2015:

$ in Millions	**As of September 30, 2015**							
Mortgage & Asset-Backed Fixed Maturities by Credit Quality[1]	**AAA**	**AA**	**A**	**BBB**	**BB**	**B or Lower**	**Total**	**% of Total**
SBA loans	$2,193	$-	$-	$-	$-	$-	$2,193	17.5%
GNMA residential mortgage	3,243	5	-	-	-	-	3,248	25.9
FNMA residential mortgage	2,069	-	-	-	-	-	2,069	16.5
FHLMC residential mortgage	1,991	-	-	-	-	-	1,991	15.9
Non-agency residential mortgage	26	7	1	3	17	229	283	2.3
Commercial MBS	1,602	67	8	25	-	-	1,702	13.6
Non-mortgage ABS	629	-	64	331	3	8	1,035	8.3
Total	$11,753	$79	$73	$359	$20	$237	$12,521	100.0%
% of Total	93.9%	0.5%	0.6%	2.9%	0.2%	1.9%	100.0%	

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

Approximately 76% 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 94% rated AAA.

The following table summarizes the Company's allocation of fixed maturities by credit quality as of September 30, 2015 and December 31, 2014:

$ in Millions	**As of September 30, 2015**		**As of December 31, 2014**	
Fixed Maturities by Credit Quality[1]	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
AAA	$19,778	31.3%	$20,987	33.2%
AA+, AA, AA-	11,621	18.4	10,982	17.4
A+, A, A-	15,331	24.2	15,660	24.8
BBB+, BBB, BBB-	12,918	20.4	11,909	18.9
Total investment grade	59,648	94.3	59,538	94.3
BB+, BB, BB-	1,609	2.5	1,476	2.3
B+, B, B-	1,470	2.3	1,605	2.5
CCC or lower	566	0.9	557	0.9
Total below-investment grade	3,645	5.7	3,638	5.7
Total fixed maturities	$63,293	100.0%	$63,176	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 94% at September 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 6% at September 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 September 30, 2015.

The following table summarizes available for sale fixed maturity securities by contractual maturity at September 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 September 30, 2015		As of December 31, 2014	
Fixed Maturities by Maturity Date	Fair Value	% of Total	Fair Value	% of Total
One year or less	$3,516	5.6%	$3,460	5.5%
Over one year through five years	16,489	26.1	17,009	26.9
Over five years through ten years	17,525	27.7	17,327	27.4
Over ten years	13,242	20.8	12,775	20.2
MBS and ABS	12,521	19.8	12,605	20.0
Total fixed maturities	$63,293	100.0%	$63,176	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 nine months ended September 30, 2015 and 2014:

$ in Millions	Three Months Ended September 30,		Nine Months Ended September 30,	
Net Investment Income	2015	2014	2015	2014[1]
Taxable interest income	$523	$511	$1,559	$1,585
Tax-exempt interest income	89	99	287	312
Dividends	14	17	49	54
LP, LLC and other equity method income	139	189	190	550
Commercial mortgage loans	30	24	83	69
Other investment income	6	-	19	7
Gross investment income	801	840	2,187	2,577
Investment expenses[2]	(42)	(36)	(120)	(105)
Net investment income	$759	$804	$2,067	$2,472

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

Net investment income for the three and nine months ended September 30, 2015 was $759 million and $2.067 billion, respectively, decreases of $45 million and $405 million from the same periods in 2014. The decreases in both periods were primarily a result of lower changes in valuations in the energy sector. In addition, valuation changes in LP and LLC private equity investments favorably impacted the quarter results while the year reflected lower valuation changes 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 nine months ended September 30, 2015 and 2014:

$ in Millions **Net Realized Gains (Losses)**	**Sales & Dispositions**	**Impairments**	**Change in Derivatives Value**	**Total**
Three Months Ended September 30, 2015:				
Fixed maturities	$1	($7)	$-	($6)
Equities	3	(14)	-	(11)
Other	2	(268)	27	(239)
Total	$6	($289)	$27	($256)
Three Months Ended September 30, 2014:				
Fixed maturities	$27	($1)	$-	$26
Equities	11	(6)	-	5
Other	(2)	(70)	-	(72)
Total	$36	($77)	$-	($41)

$ in Millions **Net Realized Gains (Losses)**	**Sales & Dispositions**	**Impairments**	**Change in Derivatives Value**	**Total**
Nine Months Ended September 30, 2015:				
Fixed maturities	$127	($19)	$-	$108
Equities	225	(29)	-	196
Other	(9)	(289)	16	(282)
Total	$343	($337)	$16	$22
Nine Months Ended September 30, 2014:				
Fixed maturities	$69	($4)	$-	$65
Equities	70	(9)	-	61
Other	6	(119)	-	(113)
Total	$145	($132)	$-	$13

$ in Millions	Three Months Ended September 30,		Nine Months Ended September 30,	
Components of Net Realized (Losses) Gains	**2015**	**2014**	**2015**	**2014**
Fixed maturities:				
Gross realized gains	$20	$28	$155	$123
Gross realized losses	(26)	(2)	(47)	(58)
Equities:				
Gross realized gains	25	27	276	95
Gross realized losses	(36)	(22)	(80)	(34)
Other:				
Gross realized gains	31	5	46	47
Gross realized losses	(270)	(77)	(328)	(160)
Total net realized (losses) gains	($256)	($41)	$22	$13

Net realized (losses) gains for the three and nine months ended September 30, 2015 were ($256) million and $22 million, respectively, versus ($41) million and $13 million in the same periods in 2014. Both periods were negatively impacted by impairments of direct investments in oil and gas wells of $250 million and $262 million, respectively. These impairment losses were more than offset in the year by equity and fixed maturity sales that occurred in 2015.

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 September 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	($1)	$212	($2)	$266
Residential MBS	(3)	810	(4)	361
Commercial MBS	(4)	486	(1)	137
Other MBS and ABS	(3)	559	(2)	255
U.S. state and municipal	(37)	1,494	(6)	141
Corporate and other	(344)	7,646	(118)	957
Foreign government securities	(19)	870	(21)	337
Total fixed maturities	(411)	12,077	(154)	2,454
Common stock	(130)	754	(17)	41
Preferred stock	(1)	12	(58)	249
Total equity securities	(131)	766	(75)	290
Total securities available for sale	($542)	$12,843	($229)	$2,744

Unrealized losses increased from $361 million as of December 31, 2014 to $771 million as of September 30, 2015 primarily due to the unfavorable impact of widening spreads, partially offset by a decrease in 5-year and 10-year treasury yields. Unrealized losses less than 12 months increased from $150 million at December 31, 2014 to $542 million as of September 30, 2015. Unrealized losses 12 months or longer increased from $211 million as of December 31, 2014 to $229 million as of September 30, 2015. Of the $17 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 September 30, 2015, there were 920 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 September 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 September 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 September 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 September 30, 2015 (including cash and cash equivalents) totaled $78.229 billion.

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

Current maturities of long-term debt:

$ in Millions	As of September 30, 2015	As of December 31, 2014
Current maturities of long-term debt[1]	$ 249	$ -

[1] 2015 includes $249 million of 6.70% Notes due 8/15/2016.

Long-term debt:

$ in Millions	As of September 30, 2015	As of December 31, 2014
6.70% Notes, due 2016	$ -	$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]	193	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	6,994	7,246
Unamortized discount	(12)	(14)
Total long-term	$6,982	$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

During the three and nine months ended September 30, 2015, the Company repurchased $3 million of the 10.75% Junior Subordinated notes due 2088 compared to repurchases of $51 million in 2014. Pre-tax losses of $1 million were recorded on these transactions for the three months and nine months ended September 30, 2015 compared to pre-tax losses of $29 million in 2014 and are included in loss on extinguishment of debt in the accompanying Consolidated Statements of Operations.

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, LMGI increased its commercial paper program from $750 million to $1 billion. There was no commercial paper outstanding at September 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 September 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 September 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 nine months ended September 30, 2015 was $110 million and $329 million, respectively, increases of $4 million and $19 million over the same periods in 2014. The increases in interest expense reflect the new debt issuances in 2014, partially offset by debt repurchases and maturities.

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 September 30, 2015, the Company, through its downstream subsidiary LMGI, had $6.313 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	$49
LMFIC	485%	453%	$115	$11
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 nine months ended September 30, 2015. Available dividend capacity as of September 30, 2015 is calculated as 2015 dividend capacity less dividends paid for the preceding 12 months. Dividends paid October 1, 2014 through September 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 advisor is entitled to recover annual expenses for investment management services performed by its employees.
- Liberty Corporate Services LLC ("LCS"), which through its subsidiaries collects fees and other revenues, primarily for claims administration and agency services rendered for affiliated and non-affiliated entities. For the three and nine months ended September 30, 2015, LCS recorded $81 million and $235 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 $17.970 billion and $19.180 billion at September 30, 2015 and December 31, 2014, respectively. The decrease in surplus primarily reflects affiliated unrealized losses of $1.500 billion, a reduction to other changes in surplus of $621 million and unaffiliated unrealized losses of $517 million, partially offset by net income of $1.428 billion (the sum of earnings from the Company's 56 domestic property-casualty insurance companies and dividends from subsidiaries). Other changes in surplus was primarily driven by goodwill amortization expense, net deferred tax assets, 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 Standards Codification ("ASC") 323, *Investments—Equity Method and Joint Ventures*, allows entities that invest in certain qualified affordable housing projects through limited liability entities the option to account for these investments using the proportional amortization method if certain conditions are met. Under the proportional amortization method, the entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense or benefit. The impact of adoption was not material to the Company's results of operations and financial position.

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

In April 2014, the FASB issued ASU 2014-08, (Topic 205 and Topic 360) *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. This ASU modifies the definition of discontinued operations by limiting discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have (or will have) a major effect on an entity's operations and financial results. Also, this update requires additional financial statement disclosures about discontinued operations, as well as disposals of an individually significant component of an entity that do not qualify for discontinued operations presentation. This ASU was effective for all disposals (or classifications as held for sale) of components of an entity that occurred within annual and interim periods beginning on or after December 15, 2014 and for all businesses that, on acquisition, were classified as held for sale that also occurred within interim and annual periods beginning on or after December 15, 2014. The Company implemented this guidance effective January 1, 2015. For further discussion of what the Company has included in Discontinued operations in the Consolidated Statements of Operations, see the Consolidated Results of Operations section.

The Company has not adopted any other accounting standards through the third 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") which amends the guidance for determining whether an entity is a variable interest entity ("VIE"). ASU 2015-02 eliminates the separate consolidation guidance for limited partnerships and with it, the presumption that a general partner should consolidate a limited partnership. In addition, ASU 2015-02 changes the guidance for determining if fee arrangements qualify as variable interests and the effect fee arrangements have on the determination of the primary beneficiary. ASU 2015-02 is effective for public business entities for annual and interim reporting periods beginning after December 15, 2015. For all other entities, ASU 2015-02 is effective for fiscal years beginning after December 31, 2016, and for interim periods within fiscal years beginning after December 15, 2017. The adoption of ASU 2015-02 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.

Venezuela Deconsolidation and Discontinued Operations

The evolving conditions in Venezuela, including the increasingly restrictive exchange control regulations and other factors, significantly impact our control over the Venezuelan operations. As a result of these factors, which we believe to be other-than-temporary, we concluded that effective September 30, 2015, we do not meet the accounting criteria for control over the Venezuelan operations, and therefore have deconsolidated these operations in the accompanying financial statements. As a result of deconsolidating, the Company recognized an impairment charge of approximately $690 million which includes the write down of the investment in the previously consolidated Venezuelan operations to fair value and the write-off of related intercompany balances.

The Company has re-examined its strategy in Venezuela and determined that the Venezuelan operations would be best served under new ownership. Therefore, the Company's Venezuelan operations are now held for sale and are classified as discontinued operations on the Company's Consolidated Financial Statements. For further detail, see the Consolidated Results of Operations section.

Unpaid Claims and Claim Adjustment Expenses

Reserves for property-casualty unpaid claims and claim adjustment expenses were $49.490 billion and $49.970 billion as of September 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 $993 million and $1.225 billion as of September 30, 2015 and December 31, 2014, respectively.

In the third quarter of 2015, the Company completed a review of asbestos, environmental and MTT unpaid loss and ALAE claim liabilities. The review resulted in no change to reserves as they make a reasonable provision for all unpaid losses and loss adjustment expenses.

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 $13.695 billion and $13.979 billion as of September 30, 2015 and December 31, 2014, respectively, net of allowance for doubtful accounts of $141 million and $149 million, respectively. Included in these balances are $653 million and $548 million of paid recoverables and $13.183 billion and $13.580 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 Operations.

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 Operations (amounts in millions):

Amounts ceded under NICO Reinsurance Transaction	Nine Months Ended September 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 September 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 nine months ended September 30, 2015 was zero and $1 million, respectively, as compared to $1 million and $2 million for the three and nine months ended September 30, 2014, respectively. Deferred gain amortization was zero and $1 million for the three and nine months ended September 30, 2015, respectively, as compared to $1 million and $2 million for the three and nine months ended September 30, 2014, respectively. Reinsurance recoverables related to these transactions, including experience related profit accruals, were $59 million and $64 million as of September 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 September 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 September 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 $365 million and $373 million as of September 30, 2015 and December 31, 2014, respectively, and the Company's maximum exposure to loss was $617 million and $665 million as of September 30, 2015 and December 31, 2014, respectively. The assets are included in Other investments in 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 $3.151 billion and $3.001 billion as of September 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 $4.765 billion and $4.834 billion as of September 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, 2015, 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 deconsolidation recognized during the year.

Deferred Income Taxes

The net deferred tax asset was $699 million and $575 million as of September 30, 2015 and December 31, 2014, net of a valuation allowance of $116 million and $138 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 decrease in the valuation allowance is primarily due to the fluctuations of certain foreign currency exchange rates, partially offset by an increase due to net operating losses generated in certain foreign subsidiaries where there is uncertainty in the timing and amount of the realization of these losses. Management believes it is more likely than not that the Company's net deferred income tax asset will be realized based upon the Company's ability and the likelihood of generating future taxable income.

The income tax provision is calculated under the liability method. Deferred income tax assets and liabilities are recorded based upon the difference between the financial statement and tax bases of assets and liabilities at the enacted tax rates. The principal assets and liabilities giving rise to such differences are net unrealized capital gains and losses on investments, insurance loss reserves, unearned premiums, deferred policy acquisition costs, employee benefits, net operating losses, 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	4
Reductions based on tax positions related to current year	(2)
Additions for tax positions of prior years	26
Reductions for tax positions of prior years	(38)
Settlements	(1)
Translation	(11)
Balance at September 30, 2015	$160

Included in the tabular roll forward of unrecognized tax benefits is interest and penalties in the amount of $52 million and $51 million as of September 30, 2015 and December 31, 2014, respectively.

Included in the balance at September 30, 2015, is $82 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 September 30, 2015 and 2014, the Company recognized $2 million and ($43) million of interest and penalties in each period. For the nine months ended September 30, 2015 and 2014, the Company recognized $3 million and ($35) million of interest and penalties, respectively. The Company had $64 million and $59 million of interest and penalties accrued as of September 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 $37.721 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.libertymutualgroup.com/investors.

---

[1] Reflects the 2015 adoption of the FASB issued ASU 2014-01, *Accounting for Investments in Qualified Affordable Housing Projects* and the deconsolidation of the Venezuelan operations, and the classification of the Venezuelan operations as discontinued operations and held for sale.