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

Year Ended December 31, 2013

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 twelve months ended December 31, 2013 and 2012. This Management's Discussion & Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the Company's December 31, 2013 Unaudited Consolidated Financial Statements, and Fourth Quarter 2013 Financial Supplement located on the Company's Investor Relations website at www.libertymutual.com/investors. The Company's discussions related to net income are presented in conformity with U.S. generally accepted accounting principles ("GAAP") on an after-tax basis. All other discussions are presented on a pre-tax GAAP basis, unless otherwise noted. Further, the Company notes that it may make material information regarding the Company available to the public, from time to time, via the Company's Investor Relations website at www.libertymutual.com/investors (or any successor site).

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Cautionary Statement Regarding Forward Looking Statements

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

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

EXECUTIVE SUMMARY

The following highlights do not address all of the matters covered in the other sections of Management's Discussion & Analysis of Financial Condition and Results of Operations or contain all of the information that may be important to the investing public. This summary should be read in conjunction with the other sections of Management's Discussion & Analysis of Financial Condition and Results of Operations and the Company's 2013 Unaudited Consolidated Financial Statements.

Three Months Ended December 31, 2013 - Consolidated Results of Operations

- Revenues for the three months ended December 31, 2013 were $9.983 billion, an increase of $518 million or 5.5% over the same period in 2012.
- Net written premium ("NWP") for the three months ended December 31, 2013 was $8.787 billion, an increase of $440 million or 5.3% over the same period in 2012.
- Pre-tax operating income ("PTOI") for the three months ended December 31, 2013 was $625 million versus pre-tax operating loss of $529 million in the same period in 2012.
- Pre-tax loss on extinguishment of debt for the three months ended December 31, 2013 was $55 million, an increase of $25 million or 83.3% over the same period in 2012. Ninety-seven million dollars of debt at an interest rate of 10.75% was repurchased in the quarter, and $400 million of senior debt was issued with an interest rate of 4.25%.
- Net income attributable to LMHC for the three months ended December 31, 2013 was $496 million versus net loss attributable to LMHC of $234 million in the same period in 2012.
- Cash flow from operations for the three months ended December 31, 2013 was $1.094 billion, an increase of $450 million or 69.9% over the same period in 2012.
- The consolidated combined ratio before catastrophes[1], net incurred losses attributable to prior years[2] and current accident year re-estimation[3] for the three months ended December 31, 2013 was 96.3%, a decrease of 0.7 points from the same period in 2012. Including the impact of catastrophes, net incurred losses attributable to prior years and current accident year re-estimation, the Company's combined ratio for the three months ended December 31, 2013 decreased 12.5 points to 100.4%.

Twelve Months Ended December 31, 2013 - Consolidated Results of Operations

- Revenues for the twelve months ended December 31, 2013 were $38.509 billion, an increase of $2.184 billion or 6.0% over the same period in 2012.
- NWP for the twelve months ended December 31, 2013 was $35.224 billion, an increase of $2.211 billion or 6.7% over the same period in 2012.
- PTOI for the twelve months ended December 31, 2013 was $2.455 billion, an increase of $1.774 billion over the same period in 2012.

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[1]Catastrophes include all current accident year catastrophe losses for severe storms in the U.S., Cyclone Oswald, Central Europe floods, Alberta floods, Germany hail storms and Typhoon Fitow. 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.
[3]Re-estimation of current accident year loss reserves for the nine months ended September 30, 2013 and September 30, 2012.

- Pre-tax loss on extinguishment of debt for the twelve months ended December 31, 2013 was $211 million, an increase of $18 million or 9.3% over the same period in 2012. Three hundred and sixty-five million dollars of debt at an interest rate of 10.75% was repurchased in 2013 and $1 billion of senior debt was issued with an interest rate of 4.25%.

- Net income attributable to LMHC for the twelve months ended December 31, 2013 was $1.743 billion, an increase of $914 million or 110.3% over the same period in 2012.

- Cash flow from operations for the twelve months ended December 31, 2013 was $4.157 billion, an increase of $1.328 billion or 46.9% over the same period in 2012.

- The consolidated combined ratio before catastrophes and net incurred losses attributable to prior years for the twelve months ended December 31, 2013 was 95.4%, a decrease of 1.6 points from the same period in 2012. Including the impact of catastrophes and net incurred losses attributable to prior years, the Company's combined ratio for the twelve months ended December 31, 2013 decreased 5.0 points to 99.8%.

Financial Condition as of December 31, 2013

- Total assets were $121.282 billion as of December 31, 2013, an increase of $1.222 billion over December 31, 2012.

- Total equity was $19.012 billion as of December 31, 2013, an increase of $487 million over December 31, 2012.

Subsequent Events

On November 13, 2013, the Company reached a definitive agreement to acquire Mexican surety company Primero Fianzas from Grupo Valores Operativos Monterray, a private investor group. The parties have not disclosed the financial terms of the agreement. The transaction is subject to regulatory approval which is expected in the second quarter of 2014.

On January 9, 2014, the Company reached a definitive agreement to sell Summit Holdings Southeast, Inc. and its related companies (together, "Summit") to American Financial Group (NYSE/NASDAQ: AFG) in an all-cash transaction. Under the terms of the transaction, AFG will pay the Company an estimated $250 million at closing. The purchase price will be subject to adjustment between signing and closing for, among other things, changes in Summit's GAAP tangible book value. The transaction is subject to regulatory approval which is expected by April 1, 2014.

In January, 2014, the Venezuelan government issued Exchange Agreement No. 25, which established that the published rate of exchange resulting from the latest SICAD auction will be applied prospectively to certain transactions that previously were subject to the official rate. A SICAD auction which settled on February 17, 2014 transacted at a VEF to U.S. dollar exchange rate of 11.7:1. In February, 2014, the Venezuelan government issued Exchange Agreement No. 26 which states that the National Center for Foreign Trade will be responsible for determining the sectors that will be allowed to buy U.S. dollars through the SICAD auction. There has been no formal interpretative guidance issued by the government related to either of the Agreements. Additionally, the Venezuelan President signed a decree creating a new exchange control mechanism referred to as SICAD 2. At this time, the Company is unable to predict with any degree of certainty how recent and future exchange control developments in Venezuela will affect its Venezuela operations.

Depending on the ultimate transparency and liquidity of the SICAD markets and the interpretation of the Exchange Agreements, it is possible that the Company may be required to remeasure all or a portion of its net monetary balances at one of the SICAD rates which could fluctuate. To the extent that the SICAD rates are higher than the official exchange rate at the time the net monetary balances are remeasured, the

Company would incur a devaluation charge, which could be material. As of December 31, 2013, the Company had net monetary equity of $700 million, which could be impacted by a devaluation charge.

On February 17, 2014, the Company reached a definitive agreement with Uni.Asia Capital Sdn Bhd for the purchase of its 68.09% stake in Uni.Asia General Insurance Berhad for approximately $113 million. The transaction is subject to Malaysian regulatory approval and is expected to be completed in the third quarter of 2014.

CONSOLIDATED RESULTS OF OPERATIONS

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

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

On January 9, 2014, the Company announced the sale of Summit, a Business Insurance mono-line workers compensation company based in Florida, to American Financial Group. The results of Summit are presented as Discontinued Operations on the accompanying Consolidated Statements of Income and are no longer included with Commercial Insurance. All prior periods have been restated to reflect the sale.

Effective February 13, 2013, the Venezuelan government devalued its currency, announcing that the fixed official exchange rate would be changed to 6.3 Bolivares Fuertes (BsF) to 1 U.S. dollar rate. Impairment of investments and foreign exchange loss from re-measurement of monetary assets and liabilities in the amounts of $223 million and $17 million, respectively, were included in the results through the fourth quarter of 2013, along with $188 million of PTOI.

The Company's four SBUs are as follows:

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

- Commercial Insurance serves traditional domestic commercial property and casualty accounts of all sizes and includes Group Benefits.

- Liberty International comprises local country operations.

- Global Specialty includes Liberty International Underwriters ("LIU") including Liberty's Lloyd's Syndicate 4472 ("Syndicate 4472"), Liberty Mutual Surety ("LMS"), and Liberty Mutual Reinsurance ("LMR").

Overview – Consolidated

Consolidated NWP by significant line of business was as follows:

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Private passenger automobile	$3,278	$3,058	7.2%	$12,714	$11,662	9.0%
Homeowners	1,340	1,182	13.4	4,941	4,100	20.5
Commercial multiple-peril / fire	602	598	0.7	2,580	2,566	0.5
Workers compensation - Voluntary	553	732	(24.5)	2,512	3,327	(24.5)
Workers compensation - Involuntary	47	35	34.3	138	136	1.5
Syndicate 4472	280	282	(0.7)	1,768	1,580	11.9
Commercial automobile	468	476	(1.7)	1,862	1,887	(1.3)
General liability	313	301	4.0	1,360	1,281	6.2
Group disability and group life	320	300	6.7	1,288	1,160	11.0
LIU third party	339	246	37.8	1,203	954	26.1
Individual life and health	283	263	7.6	1,029	903	14.0
Surety	185	171	8.2	744	721	3.2
LIU inland marine program	173	146	18.5	615	522	17.8
LIU first party	98	102	(3.9)	364	384	(5.2)
Other[1]	508	455	11.6	2,106	1,830	15.1
Total NWP[2]	$8,787	$8,347	5.3%	$35,224	$33,013	6.7%

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.

Consolidated NWP by SBU was as follows:

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Personal Insurance	$3,799	$3,518	8.0%	$15,443	$13,910	11.0%
Commercial Insurance	2,001	2,118	(5.5)	8,567	9,179	(6.7)
Liberty International	1,710	1,625	5.2	6,021	5,747	4.8
Global Specialty	1,131	972	16.4	5,021	4,310	16.5
Corporate and Other	146	114	28.1	172	(133)	NM
Total NWP	$8,787	$8,347	5.3%	$35,224	$33,013	6.7%
Foreign exchange effect on growth			(4.0)			(2.9)
NWP growth excluding foreign exchange[1]			9.3%			9.6%

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

Major drivers of NWP growth were as follows:

$ in Millions	Three Months Ended December 31,				Twelve Months Ended December 31,			
	2013	2012	$ Change	Points Attribution	2013	2012	$ Change	Points Attribution
Total NWP[1]	$8,787	$8,347	$440	5.3	$35,224	$33,013	$2,211	6.7
Components of Growth:								
Domestic personal automobile	2,250	2,093	157	1.9	9,129	8,306	823	2.5
-Domestic homeowners	1,213	1,104	109	1.3	4,969	4,438	531	1.6
-Homeowners quota share	59	11	48	0.6	(278)	(577)	299	0.9
Total domestic homeowners	1,272	1,115	157	1.9	4,691	3,861	830	2.5
International local businesses (ex foreign exchange)[2]	2,043	1,625	418	5.0	6,971	5,747	1,224	3.7
LIU (ex foreign exchange)[2]	649	510	139	1.7	2,319	1,939	380	1.2
Domestic workers compensation	547	720	(173)	(2.1)	2,458	3,193	(735)	(2.2)
Syndicate 4472 (ex foreign exchange)[2]	281	282	(1)	-	1,770	1,580	190	0.6
Domestic individual life	138	128	10	0.1	522	417	105	0.3
Domestic group disability and group life	214	197	17	0.2	886	788	98	0.3
Surety	185	171	14	0.2	744	721	23	0.1
Foreign exchange[2]	(336)	-	(336)	(4.0)	(957)	-	(957)	(2.9)
Other commercial lines	1,544	1,506	38	0.4	6,691	6,461	230	0.6
Total NWP	$8,787	$8,347	$440	5.3	$35,224	$33,013	$2,211	6.7

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:

$ in Millions	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2013	2012	Change	2013	2012	Change
U.S.	$6,536	$6,245	4.7%	$26,623	$25,077	6.2%
International[1]	2,251	2,102	7.1	8,601	7,936	8.4
Total NWP	$8,787	$8,347	5.3%	$35,224	$33,013	6.7%

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

NWP for the three and twelve months ended December 31, 2013 was $8.787 billion and $35.224 billion, respectively, increases of $440 million and $2.211 billion over the same periods in 2012. Significant changes by major line of business include:

- Private passenger automobile NWP increased $220 million and $1.052 billion in the quarter and year, respectively. The increases in both periods primarily reflect growth of automobiles insured to over 16 million globally, rate increases in Personal Insurance, organic growth in Liberty International, primarily in Latin America (Venezuela, primarily due to inflation and higher average written premium in Brazil), and organic growth in Europe (primarily due to the addition of the United Kingdom), partially offset by the Venezuela devaluation.
- Homeowners NWP increased $158 million and $841 million in the quarter and year, respectively. The increases in both periods primarily reflect growth of policies in-force and rate increases in

Personal Insurance along with a reduction in premium ceded under a homeowners quota share treaty (approximately $300 million).

- Workers compensation - Voluntary NWP decreased $179 million and $815 million in the quarter and year, respectively. The decreases in both periods primarily reflect exposure reductions due to disciplined underwriting and lower retrospectively rated premiums and audit premiums partially offset by rate increases. The 2012 sale of the Argentina workers compensation company also contributed to the decrease.
- Syndicate 4472 NWP decreased $2 million in the quarter and increased $188 million in the year. The increase in the year primarily reflects new business growth and favorable adjustments to ultimate premium estimates.
- General liability NWP increased $12 million and $79 million in the quarter and year, respectively. The increases in both periods primarily reflect rate increases.
- Group disability and group life NWP increased $20 million and $128 million in the quarter and year, respectively. The increases in both periods primarily reflect an increase in new business in Commercial Insurance. The year was further impacted by a large account transaction recorded in the third quarter of 2013.
- LIU third party NWP increased $93 million and $249 million in the quarter and year, respectively. The increases in both periods primarily reflect favorable rates, a reinsurance program change and new business.
- Individual life and health NWP increased $20 million and $126 million in the quarter and year, respectively. The increases in both periods were primarily driven by structured settlement sales in Personal Insurance.
- LIU inland marine program NWP increased $27 million and $93 million in the quarter and year, respectively. The increases primarily reflect subscriber growth, pricing mix and a new program that began at the end of the second quarter of 2012.

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

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

Results of Operations – Consolidated

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Revenues	$9,983	$9,465	5.5%	$38,509	$36,325	6.0%
PTOI before catastrophes, net incurred losses attributable to prior years, Venezuela devaluation, current accident year re-estimation and LP and LLC income	$689	$576	19.6%	$3,092	$2,582	19.8%
Catastrophes[1]	(102)	(855)	(88.1)	(1,262)	(2,067)	(38.9)
Net incurred losses attributable to prior years:						
- Asbestos & environmental[2]	(4)	2	NM	(288)	(56)	NM
- All other[3]	(167)	(330)	(49.4)	130	(131)	NM
Venezuela devaluation	10	-	NM	171	-	NM
Current accident year re-estimation[4]	(67)	(21)	NM	-	-	-
Pre-tax operating income (loss) before LP and LLC income	359	(628)	NM	1,843	328	NM
LP and LLC income[5]	266	99	168.7	612	353	73.4
Pre-tax operating income (loss)	625	(529)	NM	2,455	681	NM
Net realized gains	65	185	(64.9)	11	534	(97.9)
SBU realignment (expense) benefit	(3)	(57)	(94.7)	5	(99)	NM
Loss on extinguishment of debt	(55)	(30)	83.3	(211)	(193)	9.3
Pre-tax income (loss)	632	(431)	NM	2,260	923	144.9
Income tax expense (benefit)	128	(227)	NM	547	82	NM
Consolidated net income (loss) before discontinued operations	504	(204)	NM	1,713	841	103.7
Discontinued operations, net of tax	20	4	NM	47	15	NM
Consolidated net income (loss)	524	(200)	NM	1,760	856	105.6
Less: Net income attributable to non-controlling interest	28	34	(17.6)	17	27	(37.0)
Net income (loss) attributable to LMHC	$496	($234)	NM	$1,743	$829	110.3%
Cash flow from operations	$1,094	$644	69.9%	$4,157	$2,829	46.9%

1 Catastrophes include all current accident year catastrophe losses for severe storms in the U.S., Cyclone Oswald, Central Europe floods, Alberta floods, Germany hail storms and Typhoon Fitow. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.
2 2013 includes $278 million of strengthening of asbestos and environmental related reserves.
3 Net of earned premium and reinstatement premium attributable to prior years of $11 million and $217 million for the three and twelve months ended December 31, 2013 and $2 million and $43 million for the same periods in 2012. Net of amortization of deferred gains (losses) on retroactive reinsurance of $160 million and $339 million for the three and twelve months ended December 31, 2013 and ($3) million and $29 million for the same periods in 2012.
4 Re-estimation of the current accident year loss reserves for the nine months ended September 30, 2013 and September 30, 2012.
5 LP and LLC income is included in net investment income in the accompanying Consolidated Statements of Income.
NM = Not Meaningful

PTOI for the three and twelve months ended December 31, 2013 was $625 million and $2.455 billion, respectively, versus ($529) million and $681 million in the same periods in 2012. The increases in both periods primarily reflect lower catastrophe losses (2012 includes the impact of Superstorm Sandy), improved Personal Insurance results excluding catastrophes and net incurred losses attributable to prior years, higher LP and LLC income, lower unfavorable prior year loss development, and the Venezuela devaluation, partially offset by reduced net investment income, excluding LP and LLC income, due to lower investment yields and impairment losses on equity method investments in the natural resources sector. The year was further impacted by improved Commercial Insurance results excluding catastrophes and net incurred losses attributable to prior years, while the quarter reflects higher adverse current accident year reserve re-estimation in Personal Insurance related to auto liability.

Revenues for the three and twelve months ended December 31, 2013 were $9.983 billion and $38.509 billion, respectively, increases of $518 million and $2.184 billion over the same periods in 2012. The major components of revenues are net premium earned, net investment income, net realized gains, and fee and other revenues.

Net premium earned for the three and twelve months ended December 31, 2013 was $8.716 billion and $34.145 billion, respectively, increases of $471 million and $2.523 billion over the same periods in 2012. The increases in both periods primarily reflect the premium earned associated with the previously mentioned NWP growth in 2013 and favorable adjustments to ultimate premium estimates for Syndicate 4472. The year was also driven by higher estimated ultimate retrospectively rated premiums on certain pre-2012 workers compensation business.

Net investment income for the three and twelve months ended December 31, 2013 was $883 million and $3.137 billion, respectively, an increase of $108 million and a decrease of $47 million versus the same periods in 2012. Both periods reflect higher valuation increases in LP and LLC investments, primarily in the energy sector, and a higher invested asset base as a result of continued reinvestment of cash flow from operations. These increases are partially offset in the quarter and more than offset in the year by a reduction in taxable interest income due to lower investment yields, as well as valuation decreases in other equity method investments, primarily related to impairment losses in the natural resources sector.

Net realized gains for the three and twelve months ended December 31, 2013 were $65 million and $11 million, respectively, decreases of $120 million and $523 million from the same periods in 2012. The decreases in both periods relate to energy sector gains in 2012 that did not recur in 2013, 2012 gains from the sale of a business segment in Argentina and contingent consideration recognized in connection with the prior sale of certain Commercial Insurance policy renewal rights in 2009, and fixed maturity impairment losses recognized in 2013. The year also includes impairment losses taken as a result of the Venezuela devaluation in February 2013 being deemed other-than-temporary and gains taken on fixed maturity sales in 2012 that did not recur in 2013. These decreases were partially offset by increased gains recognized in 2013 related to equity sales.

Fee and other revenues for the three and twelve months ended December 31, 2013 were $319 million and $1.216 billion, respectively, increases of $59 million and $231 million over the same periods in 2012. The increases primarily reflect higher oil and gas revenues in Corporate and Other due to increased production, Commercial Insurance revenues from servicing carrier operations due to higher involuntary market premium volume and third-party administrator fee income and additional fees associated with single premium whole life policies and written premium growth in Personal Insurance.

Claims, benefits and expenses for the three and twelve months ended December 31, 2013 were $9.293 billion and $36.043 billion, respectively, a decrease of $516 million and an increase of $933 million versus the same periods in 2012. The decrease in the quarter is primarily driven by losses related to Superstorm Sandy and unfavorable incurred losses attributable to prior years recorded in 2012. The increase in the year reflects overall business growth, unfavorable incurred losses attributable to prior years including asbestos and environmental reserves and higher variable compensation costs.

Pre-tax loss on extinguishment of debt for the three and twelve months ended December 31, 2013 was $55 million and $211 million, increases of $25 million and $18 million over the same periods in 2012. Three hundred and sixty-five million of debt at an interest rate of 10.75% was repurchased in 2013 and $1 billion of senior debt was issued with an interest rate of 4.25%.

Income tax expense (benefit) for the three and twelve months ended December 31, 2013 was $128 million and $547 million, respectively, versus ($227) million and $82 million in the same periods in 2012. The Company's effective tax (benefit) rate for the three and twelve months ended December 31, 2013 was 20% and 24% compared to (53%) and 9% for the same periods in 2012. The increase in the effective tax rate for the three months ended December 31, 2013 from 2012 is due to pre-tax loss in the fourth quarter of 2012, compared to pre-tax income in the fourth quarter of 2013. The increase in the effective tax rate for the twelve months ended December 31, 2013 over 2012 is primarily due to higher pre-tax income and a benefit

from an audit settlement recorded in 2012, offset by revision to prior year estimates. The Company's effective tax rate differs from the U.S. Federal statutory rate of 35% principally due to tax-exempt investment income, general business credits, and revisions to prior year estimates.

Net income (loss) attributable to LMHC for the three and twelve months ended December 31, 2013 was $496 million and $1.743 billion, respectively, versus ($234) million and $829 million in the same periods in 2012.

Cash flow from operations for the three and twelve months ended December 31, 2013 was $1.094 billion and $4.157 billion, respectively, increases of $450 million and $1.328 billion over the same periods in 2012. Both periods reflect lower catastrophe losses paid, a change in terms in the homeowners quota share treaty, favorable collections due to written premium growth and increased gas and oil production revenue. The year was also favorably impacted by a workers compensation residual market litigation settlement and an Ireland reserve settlement with the Quinn Insurance Limited ("QIL") administrators.

	Three Months Ended December 31,			Twelve Months Ended December 31,		
CONSOLIDATED	**2013[1]**	**2012**	**Change (Points)**	**2013[1]**	**2012**	**Change (Points)**
Combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation						
Claims and claim adjustment expense ratio	65.3%	67.9%	(2.6)	64.9%	67.6%	(2.7)
Underwriting expense ratio	31.0	29.0	2.0	30.4	29.3	1.1
Dividend ratio	-	0.1	(0.1)	0.1	0.1	-
Subtotal	96.3	97.0	(0.7)	95.4	97.0	(1.6)
Catastrophes[2]	1.2	10.8	(9.6)	3.9	6.8	(2.9)
Net incurred losses attributable to prior years:						
- Asbestos & environmental	0.1	0.7	(0.6)	0.9	0.5	0.4
- All other[3]	2.0	4.1	(2.1)	(0.4)	0.5	(0.9)
Current accident year re-estimation[4]	0.8	0.3	0.5	-	-	-
Total combined ratio[5]	100.4%	112.9%	(12.5)	99.8%	104.8%	(5.0)

1 2013 combined ratio has been adjusted to exclude the impact of the Venezuela devaluation for comparative purposes.
2 Catastrophes include all current accident year catastrophe losses for severe storms in the U.S., Cyclone Oswald, Central Europe floods, Alberta floods, Germany hail storms, and Typhoon Fitow. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.
3 Net of earned premium and reinstatement premium attributable to prior years.
4 Re-estimation of the current accident year loss reserves for the nine months ended September 30, 2013 and September 30, 2012.
5 The combined ratio, expressed as a percentage, is a measure of underwriting profitability. This measure should only be used in conjunction with, and not in lieu of, underwriting income and may not be comparable to other performance measures used by the Company's competitors. The combined ratio is computed as the sum of the following property and casualty ratios: the ratio of claims and claim adjustment expense to earned premium; the ratio to earned premium of insurance operating costs plus amortization of deferred policy acquisition costs less fee income (primarily related to the Company's involuntary market servicing carrier operations and managed care income), and less installment charges; and the ratio of policyholder dividends to earned premium. Provisions for uncollectible premium and reinsurance are not included in the combined ratio unless related to an asbestos and environmental commutation and certain other run off.

The consolidated combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation for the three and twelve months ended December 31, 2013 was 96.3% and 95.4%, decreases of 0.7 points and 1.6 points from the same periods in 2012. The decreases in the claims and claim adjustment expense ratio in both periods reflect a decrease in current accident year losses in Commercial Insurance and Personal Insurance as well as LMS and LIU third party in Global Specialty. The increases in the underwriting expense ratio reflect higher acquisition and start-up costs in certain

international operations, a higher expense ratio in Commercial Insurance due to premium volume contraction, and higher variable compensation and benefit plan costs.

Including the impact of catastrophes, net incurred losses attributable to prior years and current accident year re-estimation, the total combined ratio for the three and twelve months ended December 31, 2013 was 100.4% and 99.8%, decreases of 12.5 points and 5.0 points from the same periods in 2012. The decreases in both periods reflect current accident year loss ratio improvement previously discussed as well as lower catastrophe losses and lower unfavorable net incurred losses attributable to prior years, partially offset by a higher expense ratio.

PERSONAL INSURANCE

Overview – Personal Insurance

Personal Insurance sells automobile, homeowners and other types of property and casualty insurance coverage, as well as life and annuity products, to individuals in the United States. Personal Insurance is comprised of two market segments: Personal Lines and Safeco. Personal Lines products are distributed through more than 2,500 licensed captive sales representatives, approximately 500 licensed telesales counselors, third-party producers (including banks for life products) and the Internet. Personal Lines' largest source of new business is through its over 15,000 sponsored affinity groups (including employers, professional and alumni associations, credit unions, and other partnerships). Safeco products are distributed nationally through independent agents.

Personal Insurance NWP by market segment was as follows:

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Personal Lines	$2,124	$1,985	7.0%	$8,893	$8,103	9.7%
Safeco	1,675	1,533	9.3	6,550	5,807	12.8
Total NWP	$3,799	$3,518	8.0%	$15,443	$13,910	11.0%

Personal Insurance NWP by line of business was as follows:

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Private passenger automobile	$2,248	$2,095	7.3%	$9,120	$8,303	9.8%
Homeowners and other	1,417	1,298	9.2	5,814	5,202	11.8
Individual life	134	125	7.2	509	405	25.7
Total NWP	$3,799	$3,518	8.0%	$15,443	$13,910	11.0%

NWP for the three and twelve months ended December 31, 2013 was $3.799 billion and $15.443 billion, respectively, increases of $281 million and $1.533 billion over the same periods in 2012.

Private passenger automobile NWP for the three and twelve months ended December 31, 2013 was $2.248 billion and $9.120 billion, respectively, increases of $153 million and $817 million over the same periods in 2012. The increases reflect 5.9% growth in auto policies in-force as compared to December 31, 2012 as well as rate increases.

Homeowners and other NWP for the three and twelve months ended December 31, 2013 was $1.417 billion and $5.814 billion, respectively, increases of $119 million and $612 million over the same periods in 2012. The increases reflect 4.9% growth in homeowners policies in-force as compared to December 31, 2012 as well as rate increases.

Individual life NWP for the three and twelve months ended December 31, 2013 was $134 million and $509 million, respectively, increases of $9 million and $104 million over the same periods in 2012. The increases in both periods were primarily driven by structured settlement sales.

Results of Operations – Personal Insurance

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Revenues	$4,192	$3,805	10.2%	$16,013	$14,530	10.2%
PTOI before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation	$621	$539	15.2%	$2,465	$2,202	11.9%
Catastrophes[1]	5	(553)	NM	(801)	(1,477)	(45.8)
Net incurred losses attributable to prior years	(197)	6	NM	(248)	285	NM
Current accident year re-estimation[2]	(67)	-	NM	-	-	-
Pre-tax operating income (loss)	$362	($8)	NM	$1,416	$1,010	40.2%

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.
2 Re-estimation of the current accident year loss reserves for the nine months ended September 30, 2013.
NM=Not Meaningful

Pre-tax operating income (loss) for the three and twelve months ended December 31, 2013 was $362 million and $1.416 billion, respectively, versus ($8) million and $1.010 billion in the same periods in 2012. Both periods benefitted from higher net earned premium and lower current year catastrophes, as a result of the occurrence of Superstorm Sandy in 2012 and an internal reinsurance treaty. These items were partially offset by higher variable compensation costs and in the fourth quarter the Company increased its estimate of ultimate auto liability losses in the current and prior years in recognition of a higher severity trend in bodily injury. Similar prior year strengthening in prior quarters had been significantly offset by favorable catastrophe losses. This compares to favorable prior year reserve development in 2012.

Revenues for the three and twelve months ended December 31, 2013 were $4.192 billion and $16.013 billion, respectively, increases of $387 million and $1.483 billion over the same periods in 2012. The major components of revenues are net premium earned, net investment income, and fee and other revenues.

Net premium earned for the three and twelve months ended December 31, 2013 was $3.855 billion and $14.701 billion, respectively, increases of $383 million and $1.486 billion over the same periods in 2012. The increases in both periods reflect the premium earned associated with the changes in NWP previously discussed.

Net investment income for the three and twelve months ended December 31, 2013 was $266 million and $1.046 billion, respectively, decreases of $10 million and $33 million from the same periods in 2012. The decreases were driven by lower yields, partially offset by an increase in the invested asset base.

Fee and other income for the three and twelve months ended December 31, 2013 was $64 million and $255 million, respectively, increases of $7 million and $23 million over the same periods in 2012. The increases in both periods were driven by additional fees associated with single premium whole life policies and written premium growth.

Claims, benefits and expenses for the three and twelve months ended December 31, 2013 were $3.823 billion and $14.586 billion, respectively, increases of $10 million and $1.070 billion over the same periods in 2012. The increases reflect overall business growth and non-catastrophe prior year loss development in the auto liability line in 2013, higher variable compensation costs and favorable non-catastrophe incurred losses attributable to prior years in 2012. The increase in the quarter was also driven by higher losses associated with re-estimation of the current accident year in the auto liability line. These items were partially offset by lower current year catastrophes as a result of an internal reinsurance treaty and the occurrence of Superstorm Sandy in 2012.

PERSONAL INSURANCE	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2013	2012	Change (Points)	2013	2012	Change (Points)
Combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation						
Claims and claim adjustment expense ratio	61.1%	62.9%	(1.8)	60.7%	61.7%	(1.0)
Underwriting expense ratio	25.9	25.5	0.4	25.9	25.8	0.1
Subtotal	87.0	88.4	(1.4)	86.6	87.5	(0.9)
Catastrophes[1]	(0.1)	16.6	(16.7)	5.6	11.5	(5.9)
Net incurred losses attributable to prior years	5.3	(0.2)	5.5	1.7	(2.2)	3.9
Current accident year re-estimation[2]	1.8	-	1.8	-	-	-
Total combined ratio	94.0%	104.8%	(10.8)	93.9%	96.8%	(2.9)

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 Re-estimation of the current accident year loss reserves for the nine months ended September 30, 2013.

The Personal Insurance combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation for the three and twelve months ended December 31, 2013 was 87.0% and 86.6%, respectively, decreases of 1.4 points and 0.9 points from the same periods in 2012. The decreases in the claims and claim adjustment expense ratio in both periods reflect favorable loss experience in the homeowners line of business and claim adjustment expenses growing at a slower rate than premiums earned. The increases in the underwriting expense ratio in both periods reflect an increased investment in information technology and growth-related items, such as increased captive sales representatives, advertising expenditures and higher variable compensation costs.

Including the impact of catastrophes, net incurred losses attributable to prior years and current accident year re-estimation, the total combined ratio for the three and twelve months ended December 31, 2013 was 94.0% and 93.9%, respectively, decreases of 10.8 points and 2.9 points from the same periods in 2012. In addition to the changes in the combined ratio previously discussed, the decreases in both periods were driven by lower current year catastrophes as a result of the occurrence of Superstorm Sandy in 2012 and an internal reinsurance treaty. These items were partially offset by higher losses associated with re-estimation of the current accident year in the auto liability line for the quarter, unfavorable non-catastrophe prior year loss development in the auto liability line in 2013 and non-catastrophe prior year reserve releases in 2012.

COMMERCIAL INSURANCE

Overview – Commercial Insurance

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

On January 9, 2014, the Company announced the sale of Summit, a Business Insurance mono-line workers compensation company based in Florida, to American Financial Group. The results of Summit are presented as Discontinued Operations on the accompanying Consolidated Statements of Income and are no longer included with Commercial Insurance. All prior periods have been restated to reflect the sale.

Commercial Insurance NWP by market segment was as follows:

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Business Insurance	$1,269	$1,293	(1.9%)	$5,315	$5,727	(7.2%)
National Insurance	461	571	(19.3)	2,189	2,437	(10.2)
Group Benefits	214	197	8.6	885	787	12.5
Other Commercial Insurance	57	57	-	178	228	(21.9)
Total NWP	$2,001	$2,118	(5.5%)	$8,567	$9,179	(6.7%)

Commercial Insurance NWP by line of business was as follows:

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Workers compensation - Voluntary	$479	$646	(25.9%)	$2,230	$2,976	(25.1%)
Workers compensation - Involuntary	47	35	34.3	138	136	1.5
Commercial multiple-peril	489	485	0.8	2,017	2,051	(1.7)
Commercial automobile	346	343	0.9	1,423	1,453	(2.1)
General liability	250	245	2.0	1,091	1,046	4.3
Group disability and group life	214	197	8.6	885	787	12.5
Other lines	176	167	5.4	783	730	7.3
Total NWP	$2,001	$2,118	(5.5%)	$8,567	$9,179	(6.7%)

NWP for the three and twelve months ended December 31, 2013 was $2.001 billion and $8.567 billion, respectively, decreases of $117 million and $612 million from the same periods in 2012. The decreases in both periods were primarily driven by the re-underwriting of workers compensation resulting in exposure reductions of 17% and 26% in the quarter and year, respectively. Lower retrospectively rated premiums, audit premiums and new business (in the year) also contributed to the decrease, partially offset by rate increases of 7% and 10% in the quarter and year, respectively. The decreases in both periods were partially offset by higher group disability and group life premium as well as rate increases and higher new business, partially offset by lower retention across most lines.

Results of Operations – Commercial Insurance

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Revenues	$2,522	$2,723	(7.4%)	$10,160	$10,760	(5.6%)
PTOI before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation	$202	$209	(3.3%)	$818	$658	24.3%
Catastrophes[1]	(68)	(236)	(71.2)	(252)	(595)	(57.6)
Net incurred losses attributable to prior years[2]	(8)	38	NM	110	182	(39.6)
Current accident year re-estimation[3]	-	(21)	(100.0)	-	-	-
Pre-tax operating income (loss)	$126	($10)	NM	$676	$245	175.9%

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 Net of earned premium and reinstatement premium attributable to prior years of $5 million and ($10) million for the three and twelve months ended December 31, 2013 and $2 million and $29 million for the same periods in 2012. Net of amortization of deferred gains (losses) on assumed retroactive reinsurance of zero and $2 million for the three and twelve months ended December 31, 2013 and ($2) million and zero for the same periods in 2012.

3 Re-estimation of the current accident year loss reserves for the nine months ended September 30, 2012.

NM=Not Meaningful

Pre-tax operating income (loss) for the three and twelve months ended December 31, 2013 was $126 million and $676 million, respectively, versus ($10) million and $245 million in the same periods in 2012. The increases in both periods were driven by lower catastrophe losses (2012 includes the impact of Superstorm Sandy), decreased current accident year losses across most lines of business, and lower salary and benefit costs. These increases were partially offset by lower net investment income, higher variable compensation costs, increased information technology expenditures, and unfavorable development of prior accident year losses in the quarter (primarily related to involuntary business) and less favorable development of prior accident year losses in the year. The increase in the quarter also includes current accident year re-estimation in 2012 that did not recur.

Revenues for the three and twelve months ended December 31, 2013 were $2.522 billion and $10.160 billion, respectively, decreases of $201 million and $600 million from the same periods in 2012. The major components of revenues are net premium earned, net investment income and fee and other revenues.

Net premium earned for the three and twelve months ended December 31, 2013 was $2.172 billion and $8.750 billion, respectively, decreases of $166 million and $481 million from the same periods in 2012. The decreases in both periods reflect lower NWP as previously discussed.

Net investment income for the three and twelve months ended December 31, 2013 was $268 million and $1.071 billion, respectively, decreases of $39 million and $157 million from the same periods in 2012. The decreases in both periods were primarily driven by lower investment yields.

Fee and other revenues for the three and twelve months ended December 31, 2013 were $83 million and $341 million, respectively, increases of $5 million and $40 million over the same periods in 2012. The increases in both periods reflect higher commission revenue from servicing carrier operations due to higher involuntary market premium volume, and third-party administrator fee income. 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 twelve months ended December 31, 2013 were $2.397 billion and $9.486 billion, decreases of $336 million and $1.029 billion from the same periods in 2012. The decreases in both periods were driven by lower catastrophe losses, lower workers compensation exposures,

decreased current accident year losses across most lines of business and lower salary and benefit costs, partially offset by higher variable compensation costs, increased information technology expenditures, and unfavorable development of prior accident year losses in the quarter (primarily related to involuntary business) and less favorable development of prior accident year losses in the year.

	Three Months Ended December 31,			Twelve Months Ended December 31,		
COMMERCIAL INSURANCE	**2013**	**2012**	**Change (Points)**	**2013**	**2012**	**Change (Points)**
Combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation						
Claims and claim adjustment expense ratio	71.0%	75.0%	(4.0)	71.3%	77.1%	(5.8)
Underwriting expense ratio	31.5	28.6	2.9	30.8	28.9	1.9
Dividend ratio	(0.1)	0.1	(0.2)	0.2	0.3	(0.1)
Subtotal	102.4	103.7	(1.3)	102.3	106.3	(4.0)
Catastrophes[1]	3.5	11.0	(7.5)	3.2	7.1	(3.9)
Net incurred losses attributable to prior years[2]	0.4	(1.8)	2.2	(1.4)	(2.2)	0.8
Current accident year re-estimation[3]	-	1.0	(1.0)	-	-	-
Total combined ratio	106.3%	113.9%	(7.6)	104.1%	111.2%	(7.1)

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

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

3 Re-estimation of the current accident year loss reserves for the nine months ended September 30, 2012.

The Commercial Insurance combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation for the three and twelve months ended December 31, 2013 was 102.4% and 102.3%, respectively, decreases of 1.3 points and 4.0 points from the same periods in 2012. The claims and claim adjustment expense ratio for both periods was impacted by decreased current accident year losses across most lines of business reflecting reduced workers compensation exposures and rate increases across all lines. The increases in the underwriting expense ratio in both periods reflect higher variable compensation costs (including agent profit sharing), lower earned premium, and increased information technology expenditures, partially offset by lower salary and benefit costs.

Including the impact of catastrophes, net incurred losses attributable to prior years and current accident year re-estimation the total combined ratio for the three and twelve months ended December 31, 2013 was 106.3% and 104.1%, respectively, decreases of 7.6 points and 7.1 points from the same periods in 2012. The decreases in both periods reflect the changes to the combined ratio previously discussed and lower catastrophe losses, partially offset by unfavorable development of prior accident year losses in the quarter (primarily related to involuntary business) and less favorable development of prior accident year losses in the year. The decrease in the quarter also includes current accident year re-estimation in 2012 that did not recur in 2013.

LIBERTY INTERNATIONAL

Overview – Liberty International

Liberty International sells property, casualty, health and life insurance products and services to individuals and businesses in four operating regions: Latin America, including Venezuela, Brazil, Colombia, Argentina (Liberty ART S.A., a workers compensation business, was sold in June 2012. The property and casualty business remains.), Chile and Ecuador (as a result of the Panamericana de Seguros del Ecuador S.A. and Cervantes S.A. Compania de Seguros y Reaseguros acquisitions in August 2012); Europe, including Spain, Portugal, Turkey, Poland, Ireland, the United Kingdom (as a result of exercising the renewal rights option over the Great Britain and Northern Ireland portfolios of Quinn Insurance Limited) and Russia (as a result of the KIT Finance Insurance acquisition in March 2012); Asia, including Thailand, Singapore, China (including Hong Kong), and Vietnam; and India. Private passenger automobile insurance is the single largest line of business.

Liberty International NWP by market segment was as follows:

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Latin America	$1,130	$1,086	4.1%	$3,852	$3,795	1.5%
Europe	441	417	5.8	1,646	1,510	9.0
Asia	133	122	9.0	512	442	15.8
India	6	-	NM	11	-	NM
Total NWP	$1,710	$1,625	5.2%	$6,021	$5,747	4.8%
Foreign exchange effect on growth			(20.6%)			(16.5%)
NWP growth excluding foreign exchange[1]			25.8%			21.3%

[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 December 31,			Twelve Months Ended December 31,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Private passenger automobile	$1,028	$965	6.5%	$3,585	$3,356	6.8%
Commercial automobile	122	131	(6.9)	438	433	1.2
Homeowners	68	67	1.5	250	239	4.6
Life and health	251	238	5.5	909	858	5.9
Other [1]	241	224	7.6	839	861	(2.6)
Total NWP	$1,710	$1,625	5.2%	$6,021	$5,747	4.8%

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

NWP for the three and twelve months ended December 31, 2013 was $1.710 billion and $6.021 billion, respectively, increases of $85 million and $274 million over the same periods in 2012. The increases in both periods reflect organic growth across all the regions, primarily in Latin America, led by the impact of inflation in Venezuela and higher average premium in Brazil and to a lesser extent, Europe, mainly attributable to the addition of the United Kingdom, as well as Asia, led by China as a result of expansion. The increases were largely offset by the impact of foreign exchange ($333 million in the quarter and $950 million in the year, primarily driven by the Venezuela devaluation (32%) and to a lesser extent, a weakened

Brazilian Real). The increase in the year also reflects acquisitions in Ecuador and Russia and new business growth in Asia, partially offset by the 2012 sale of the Argentina workers compensation company ($82 million).

Results of Operations – Liberty International

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Revenues	$1,652	$1,570	5.2%	$6,165	$6,019	2.4%
PTOI before catastrophes, net incurred losses attributable to prior years and Venezuela devaluation	$13	$78	(83.3%)	$160	$266	(39.8%)
Catastrophes[1]	-	-	-	-	-	-
Net incurred losses attributable to prior years[2]	32	8	NM	57	(7)	NM
Venezuela devaluation	10	-	NM	174	-	NM
PTOI	$55	$86	(36.0%)	$391	$259	51.0%

1 Catastrophes include all current accident year catastrophe losses. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.
2 Net of earned premium attributable to prior years of zero for the three months and twelve months ended December 31, 2013 and zero and ($1) million for the same periods in 2012.
NM = Not Meaningful

PTOI for the three and twelve months ended December 31, 2013 was $55 million and $391 million, respectively, a decrease of $31 million and an increase of $132 million versus the same periods in 2012. Both periods reflect increased expenses related to enhancements to global technology infrastructure, increased expenses related to the start-up costs in India and the United Kingdom, higher China losses, and lower net investment income, partially offset by favorable net incurred losses attributable to prior years driven by Venezuela as a result of favorable claim experience. The impact of foreign exchange affected the quarter negatively and the year positively ($12 million in the quarter and $126 million in the year), primarily driven by the Venezuela devaluation.

Revenues for the three and twelve months ended December 31, 2013 were $1.652 billion and $6.165 billion, increases of $82 million and $146 million over the same periods in 2012. The major components of revenues are net premium earned, net investment income and net realized investment (losses) gains.

Net premium earned for the three and twelve months ended December 31, 2013 was $1.496 billion and $5.795 billion, increases of $86 million and $405 million over the same periods in 2012. The increases in both periods reflect the previously mentioned growth in NWP in 2013, partially offset by the impact of foreign exchange, including devaluation.

Net investment income for the three and twelve months ended December 31, 2013 was $107 million and $428 million, decreases of $3 million and $16 million from the same periods in 2012. The decrease in the year reflects reduced net investment income from the Argentina workers compensation company due to the sale of the company. The favorable impact from a higher invested asset base due to the reinvestment of cash flows from operations, driven by the growth in net written premium, was partially offset by a decrease in overall investment yields due to lower reinvestment rates, primarily in Spain, Venezuela and Brazil.

Net realized gains (losses) for the three and twelve months ended December 31, 2013 were $1 million and ($228) million, respectively, versus $3 million and $17 million in the same periods in 2012. The decrease in the year was primarily driven by an impairment of Venezuelan BsF denominated investments recognized as the result of the Venezuela devaluation.

Claims, benefits and expenses for the three and twelve months ended December 31, 2013 were $1.596 billion and $6.002 billion, increases of $115 million and $259 million over the same periods in 2012. The increases in both periods largely reflect growth driven increases, but to a greater extent Venezuela inflation, consistent with the comments in the NWP paragraph above, as well as higher commissions due to competition in Venezuela, increased expenses related to enhancements to global technology infrastructure and the start-up costs in the United Kingdom, partially offset by favorable net incurred losses attributable to prior years versus 2012. The increase in the year also reflects the foreign exchange loss (approximately $20 million, primarily the result of the Venezuela devaluation), partially offset by the sale of the Argentina workers compensation company and the weakening of the Real.

	Three Months Ended December 31,			Twelve Months Ended December 31,		
LIBERTY INTERNATIONAL	**2013[1]**	**2012**	**Change (Points)**	**2013[1]**	**2012**	**Change (Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	66.1%	64.1%	2.0	66.1%	66.1%	-
Underwriting expense ratio	40.8	38.4	2.4	39.1	37.0	2.1
Subtotal	106.9	102.5	4.4	105.2	103.1	2.1
Catastrophes[2]	-	-	-	-	-	-
Net incurred losses attributable to prior years[3]	(2.2)	(0.5)	(1.7)	(1.0)	0.1	(1.1)
Total combined ratio	104.7%	102.0%	2.7	104.2%	103.2%	1.0

1 2013 combined ratio has been adjusted to exclude the impact of the Venezuela devaluation for comparative purposes.
2 Catastrophes include all current accident year catastrophe losses. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.
3 Net of earned premium attributable to prior years.

The Liberty International combined ratio before catastrophes and net incurred losses attributable to prior years for the three and twelve months ended December 31, 2013 was 106.9% and 105.2%, respectively, increases of 4.4 points and 2.1 points over the same periods in 2012. The increases in both periods reflect unfavorable commission expense in Venezuela due to increased competition, the start-up costs associated with the new operation in India, the impact of inflation on incurred losses in Venezuela and an increase in expenses related to enhancements to global technology infrastructure.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three and twelve months ended December 31, 2013 was 104.7% and 104.2%, respectively, increases of 2.7 points and 1.0 points over the same periods in 2012. The total combined ratios in both periods reflect the changes in the combined ratio previously discussed, as well as favorable net incurred losses attributable to prior years driven by Venezuela as a result of favorable claim experience. The increase over the prior year was further impacted by unfavorable prior year reserve development in 2012 related to the Argentina workers compensation company that was sold in 2012.

GLOBAL SPECIALTY

Overview – Global Specialty

Global Specialty is composed of a wide array of products and services offered through three market segments: LIU, LMS, and LMR. LIU, which sells specialty commercial insurance and reinsurance worldwide, writes casualty, specialty casualty, marine, energy, construction, aviation, property, crisis management and trade credit coverage and other specialty programs through offices in Asia, Australia, Europe, the Middle East, North America and Latin America. LIU, through its Syndicate 4472, also provides multi-line insurance and reinsurance worldwide written through the Lloyds' platform. LMS is a leading provider of nationwide contract and commercial surety bonds to businesses of all sizes. LMR provides reinsurance to domestic and foreign insurance and reinsurance companies. Other primarily consists of internal reinsurance.

Global Specialty NWP by market segment was as follows:

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
LIU	$861	$724	18.9%	$3,831	$3,235	18.4%
LMS	185	169	9.5	743	718	3.5
LMR	70	79	(11.4)	382	357	7.0
Other	15	-	NM	65	-	NM
Total NWP	$1,131	$972	16.4%	$5,021	$4,310	16.5%
Foreign exchange effect on growth			(0.3)			(0.1)
NWP growth excluding foreign exchange[1]			16.7%			16.6%

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

Global Specialty's major product lines are as follows:

(1) Syndicate 4472: multi-line insurance and reinsurance with an emphasis on property, contingent lines, marine reinsurance and property and casualty reinsurance;
(2) LIU inland marine program: handset protection coverage for lost or damaged devices;
(3) LIU third party: includes casualty, excess casualty, directors and officers, errors and omissions, environmental impairment liability, commercial automobile, railroad and other;
(4) LIU first party: includes marine, energy, construction, aviation and property;
(5) LIU other: includes workers compensation, surety, trade credit, excess and surplus property and crisis management;
(6) LMS: includes contract and commercial surety bonds;
(7) LMR: reinsurance through both domestic and foreign insurance and reinsurance companies; and
(8) Other: internal reinsurance within Global Specialty.

Global Specialty NWP by line of business was as follows:

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Syndicate 4472	$264	$251	5.2%	$1,662	$1,439	15.5%
LIU third party	296	221	33.9	1,101	872	26.3
LMS	185	169	9.5	743	718	3.5
LIU inland marine program	173	146	18.5	615	522	17.8
LMR	70	79	(11.4)	382	357	7.0
LIU first party	91	90	1.1	318	323	(1.5)
LIU other	37	16	131.3	135	79	70.9
Other	15	-	NM	65	-	NM
Total NWP	$1,131	$972	16.4%	$5,021	$4,310	16.5%

NM = Not Meaningful

NWP for the three and twelve months ended December 31, 2013 was $1.131 billion and $5.021 billion, respectively, increases of $159 million and $711 million over the same periods in 2012. The increases in both periods reflect growth driven by Syndicate 4472 due to new business and favorable adjustments to ultimate premium estimates. LIU third party was favorably impacted by rate, a reinsurance program change and new business. LIU inland marine business increased due to subscriber growth, pricing mix and a new program that began at the end of the second quarter of 2012. Also contributing to the increase is an internal reinsurance program started in 2013 decreasing externally placed ceded premium. The quarter increase is partially offset by a decline in LMR primarily due to decreased participation in a voluntary pool.

Results of Operations – Global Specialty

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Revenues	$1,320	$1,242	6.3%	$5,131	$4,607	11.4%
PTOI before catastrophes and net incurred losses attributable to prior years	$147	$92	59.8%	$675	$617	9.4%
Catastrophes [1]	(8)	(117)	(93.2)	(102)	(145)	(29.7)
Net incurred losses attributable to prior years [2]	(45)	(139)	(67.6)	(72)	(95)	(24.2)
Pre-tax operating income (loss)	$94	($164)	NM	$501	$377	32.9%

1 Catastrophes include all current accident year catastrophe losses for severe storms in the U.S., Cyclone Oswald, Central Europe floods, Alberta floods, Germany hail storms and Typhoon Fitow. 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 $6 million and $27 million for the three and twelve months ended December 31, 2013 and ($1) million and $14 million for the same periods in 2012.

NM=Not Meaningful

Pre-tax operating income (loss) for the three and twelve months ended December 31, 2013 was $94 million and $501 million, respectively, versus ($164) million and $377 million in the same periods in 2012. The increases in both periods reflect lower current accident year loss activity in LIU third party and LMS, lower catastrophes (2012 includes the impact of Superstorm Sandy) and lower net incurred losses attributable to prior years partially offset by lower net investment income.

Revenues for the three and twelve months ended December 31, 2013 were $1.320 billion and $5.131 billion, respectively, increases of $78 million and $524 million over the same periods in 2012. The major components of revenues are net premium earned and net investment income.

Net premium earned for the three and twelve months ended December 31, 2013 was $1.236 billion and $4.787 billion, respectively, increases of $103 million and $582 million over the same periods in 2012. The increases in both periods reflect the previously mentioned growth in NWP.

Net investment income for the three and twelve months ended December 31, 2013 was $81 million and $312 million, respectively, decreases of $5 million and $27 million from the same periods in 2012. The decreases in both periods reflect lower investment yields partially offset by a higher invested asset base due to the reinvestment of cash flow from operations driven by the growth in NWP.

Claims, benefits and expenses for the three and twelve months ended December 31, 2013 were $1.224 billion and $4.605 billion, respectively, a decrease of $161 million in the quarter and an increase of $430 million in the year compared to the same periods in 2012. The decrease in the quarter was driven by lower current accident year losses, lower catastrophe losses and lower incurred losses attributable to prior years partially offset by growth effect. The increase in the year was driven by growth and business mix.

	Three Months Ended December 31,			**Twelve Months Ended December 31,**		
GLOBAL SPECIALTY	**2013**	**2012**	**Change (Points)**	**2013**	**2012**	**Change (Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	64.8%	70.2%	(5.4)	62.5%	63.7%	(1.2)
Underwriting expense ratio	29.7	28.5	1.2	29.2	28.8	0.4
Dividend ratio	0.1	0.2	(0.1)	0.2	0.2	-
Subtotal	94.6	98.9	(4.3)	91.9	92.7	(0.8)
Catastrophes [1]	0.6	10.2	(9.6)	2.1	3.4	(1.3)
Net incurred losses attributable to prior years[2]	3.7	12.4	(8.7)	1.5	2.3	(0.8)
Total combined ratio	98.9%	121.5%	(22.6)	95.5%	98.4%	(2.9)

1 Catastrophes include all current accident year catastrophe losses for severe storms in the U.S., Cyclone Oswald, Central Europe floods, Alberta floods, Germany hail storms and Typhoon Fitow. 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 twelve months ended December 31, 2013 was 94.6% and 91.9%, respectively, decreases of 4.3 points and 0.8 points from the same periods in 2012. The decreases in both periods were driven by lower current accident year losses in LMS and LIU third party partially offset by Syndicate 4472. The decrease in the year was also partially offset by LIU inland marine due to a program change in fee structure and increased current accident year losses. The unfavorable underwriting expense ratio was primarily driven by higher variable compensation costs and an increase in the commission ratio due to business mix.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three and twelve months ended December 31, 2013 was 98.9% and 95.5%, respectively, decreases of 22.6 points and 2.9 points from the same periods in 2012. The decreases in the both periods reflect the changes to the combined ratio previously discussed as well as lower catastrophe losses (2012 includes the impact of Superstorm Sandy) and lower net incurred losses attributable to prior years. In 2013, net incurred losses attributable to prior years in LMS and LIU third party was partially offset by favorable development in Syndicate 4472 and LMR.

CORPORATE AND OTHER

Overview – Corporate and Other

Corporate and Other includes the following significant items:

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

- Effective January 1, 2013, Corporate and Commercial Insurance novated their voluntary and involuntary reinsurance treaties that applied to certain pre-2011 workers compensation claims and entered into two new agreements including: (1) certain pre-2012 voluntary workers compensation claims and, (2) certain pre-2012 involuntary workers compensation claims.

- Interest expense on the Company's outstanding debt.

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

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

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

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

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

- Income related to LP and LLC investments, excluding investments in the Global Specialty and Liberty International SBUs.

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

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

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

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Reinsurance, net	$125	$74	68.9%	$83	($214)	NM
Workers compensation[1]	22	39	(43.6)	89	80	11.3
Other	(1)	1	NM	-	1	(100.0)
Total NWP	$146	$114	28.1%	$172	($133)	NM

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

NWP for the three and twelve months ended December 31, 2013 was $146 million and $172 million, respectively, increases of $32 million and $305 million over the same periods in 2012. The increases were primarily due to a decrease in ceded premium related to a homeowners quota share treaty covering Personal Insurance homeowners business due to a change in terms. The quarter was partially offset by a decrease in the Company's workers compensation "booked as billed" adjustment.

Results of Operations – Corporate and Other

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Revenues	$297	$125	137.6%	$1,040	$409	154.3%
Pre-tax operating loss before catastrophes, net incurred losses attributable to prior years, Venezuela devaluation, and LP and LLC income	($294)	($342)	(14.0%)	($1,026)	($1,161)	(11.6%)
Catastrophes[1]	(31)	51	NM	(107)	150	NM
Net incurred losses attributable to prior years:						
- Asbestos & environmental[2]	(4)	2	NM	(288)	(56)	NM
- All other[3]	51	(243)	NM	283	(496)	NM
Venezuela devaluation	-	-	-	(3)	-	NM
Pre-tax operating loss before LP and LLC income	(278)	(532)	(47.7)	(1,141)	(1,563)	(27.0)
LP and LLC income[4]	266	99	168.7	612	353	73.4
Pre-tax operating loss	($12)	($433)	(97.2%)	($529)	($1,210)	(56.3%)

1 Catastrophes include all current accident year catastrophe losses for severe storms in the U.S., Cyclone Oswald, Central Europe floods, Alberta floods and Germany hail storms. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.
2 2013 includes $278 million of strengthening of asbestos and environmental related reserves.
3 Net of earned premium attributable to prior years of zero and $200 million for the three and twelve months ended December 31, 2013 and zero and ($1) million for the same periods in 2012. Net of amortization of deferred gains on retroactive reinsurance of $160 million and $337 million for the three and twelve months ended December 31, 2013 and ($1) million and $29 million for the same periods in 2012.
4 LP and LLC income is included in net investment income in the accompanying Consolidated Statements of Income.
NM = Not Meaningful

Pre-tax operating loss for the three and twelve months ended December 31, 2013 was $12 million and $529 million, respectively, decreases of $421 million and $681 million from the same periods in 2012. The decreases were driven by higher valuation increases in LP and LLC investments and lower unfavorable net incurred losses attributable to prior years (including asbestos and environmental) primarily due to the commutation of certain workers compensation retroactive reinsurance agreements, partially offset by a lower ceding percentage on the homeowners quota share treaty due to a change in terms and higher benefit expense primarily related to employee pension benefits.

Revenues for the three and twelve months ended December 31, 2013 were $297 million and $1.040 billion, respectively, increases of $172 million and $631 million over the same periods in 2012. The major components of revenues are net premium earned, net investment income, net realized gains, and fee and other revenues.

Net premium earned for the three and twelve months ended December 31, 2013 was ($43) million and $112 million, respectively, increases of $65 million and $531 million over the same periods in 2012. The increases reflect a reduction in ceded premium due to a change in terms on the homeowners quota share treaty covering Personal Insurance homeowners effective December 31, 2012. The year is also driven by favorable earned but not reported development on certain pre-2012 workers compensation business assumed from Commercial Insurance.

Net investment income for the three and twelve months ended December 31, 2013 was $161 million and $280 million, respectively, increases of $165 million and $186 million over the same periods in 2012. Both periods primarily reflect higher valuation increases in LP and LLC investments, primarily in the energy sector. The increases are partially offset by a reduction in taxable interest income due to lower investment yields and valuation decreases in other equity method investments.

Net realized gains for the three and twelve months ended December 31, 2013 were $56 million and $205 million, respectively, decreases of $105 million and $253 million from the same periods in 2012. The decreases in both periods reflect gains in 2012 that did not recur in 2013, primarily in the energy sector and contingent consideration recognized in connection with the prior sale of certain Commercial Insurance policy renewal rights in 2009.

Fee and other revenues for the three and twelve months ended December 31, 2013 were $123 million and $443 million, increases of $47 million and $167 million over the same periods in 2012. The increases primarily reflect higher oil and gas revenues due to increased production.

Claims, benefits and expenses for the three and twelve months ended December 31, 2013 were $253 million and $1.364 billion, respectively, a decrease of $144 million and an increase of $203 million versus the same periods in 2012. Both periods were impacted by a lower ceding percentage on the homeowners quota share treaty due to a change in terms, higher employee pension expenses, and higher operating expenses related to Liberty Energy’s growth, partially offset by lower unfavorable net incurred losses attributable to prior years (excluding asbestos and environmental) primarily due to the commutation of certain workers compensation retroactive reinsurance agreements, and a reduction in unallocated loss adjustment expense reserves. The increase in the year is also driven by an increase in asbestos and environmental reserves.

INVESTMENTS

General

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

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

Invested Assets (including cash and cash equivalents)

The following table summarizes the Company's invested assets by asset category as of December 31, 2013 and December 31, 2012:

$ in Millions	**As of December 31, 2013**		**As of December 31, 2012**	
Invested Assets by Type	**Carrying Value**	**% of Total**	**Carrying Value**	**% of Total**
Fixed maturities, available for sale, at fair value	$64,256	81.4%	$64,094	82.1%
Equity securities, available for sale, at fair value	2,952	3.7	2,495	3.2
LPs and LLCs	4,091	5.2	3,767	4.8
Commercial mortgage loans	1,583	2.0	1,335	1.7
Short-term investments	393	0.5	208	0.3
Other investments	829	1.1	677	0.9
Cash and cash equivalents	4,778	6.1	5,484	7.0
Total invested assets	$78,882	100.0%	$78,060	100.0%

Total invested assets as of December 31, 2013 were $78.882 billion, an increase of $822 million or 1.1% over December 31, 2012. The increase reflects the reinvestment of cash flows from operations and financing activities, and the strong public and private equity market performance, partially offset by a decrease in fixed maturity unrealized gains related to higher treasury yields partially mitigated by spread tightening.

Fixed maturities as of December 31, 2013 were $64.256 billion, an increase of $162 million or 0.3% over December 31, 2012. The increase reflects the reinvestment of cash flows from operations and financing activities, partially offset by a decrease in unrealized gains related to higher treasury yields partially mitigated by spread tightening. As of December 31, 2013, included in fixed maturities are commitments to purchase various residential mortgage-backed securities at a cost and fair value of $30 million, and various corporate and municipal securities at a cost and fair value of $26 million.

Equity securities available for sale as of December 31, 2013 were $2.952 billion ($2.625 billion common stock and $327 million preferred stock) versus $2.495 billion as of December 31, 2012 ($2.097 billion common stock and $398 million preferred stock), an increase of $457 million or 18.3% over December 31, 2012. Of the $2.625 billion of common stock at December 31, 2013, $397 million relates to securities associated with non-guaranteed unit linked products where the policyholder bears the investment risk. The increase in total equity securities available for sale was primarily due to a combination of the strong equity market performance and the reinvestment of cash flows from operations.

Investments in LPs and LLCs as of December 31, 2013 were $4.091 billion, an increase of $324 million or 8.6% over December 31, 2012. These investments consist of traditional private equity partnerships of $2.118 billion, natural resources partnerships of $633 million, real estate partnerships of $604 million and other partnerships of $736 million. The increase reflects net improved valuations and new investments offset by distributions received. The Company's investments in LPs and LLCs are long-term in nature. The Company believes these investments offer the potential for superior long-term returns and are appropriate in the overall context of a diversified portfolio.

As of December 31, 2013, the Company had unfunded commitments in traditional private equity partnerships, real estate, natural resources, and other of $1.226 billion, $284 million, $2.794 billion, and $535 million, respectively.

Commercial mortgage loans as of December 31, 2013 were $1.583 billion (net of $15 million of loan loss reserves or 0.9% of the outstanding loan portfolio), an increase of $248 million or 18.6% over December 31, 2012. The increase primarily reflects $367 million in funding, partially offset by $126 million in principal reductions and a decrease of $7 million to the loan loss reserve. The entire commercial loan portfolio is U.S. based. As of December 31, 2013, the average total loan size was $1 million and the average loan participation size was less than $1 million. The number of loans in the portfolio increased from 3,679 at December 31, 2012 to 4,211 at December 31, 2013. Approximately 92% of the loans are full or partial recourse to borrowers.

Cash and cash equivalents as of December 31, 2013 were $4.778 billion, a decrease of $706 million or 12.9% from December 31, 2012. The decrease was primarily related to the investment of available cash into investment instruments, a pension contribution and the Venezuela devaluation, partially offset by an increase in securities lending cash collateral and net cash received from financing activities.

Regarding fair value measurements, as of December 31, 2013, excluding separate accounts and other assets, the Company reflected $4.859 billion (7.1%) 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 December 31, 2013 the Company reported $61.240 billion (90.0%) as level 2, consisting primarily of various fixed maturity securities. Finally, the Company reported $1.957 billion (2.9%) as level 3 (unobservable inputs), primarily consisting of international and privately held securities for which a market price is not readily observable.

As of December 31, 2013, no single issuer, excluding U.S. Treasuries, agency securities and mortgage-backed securities, accounted for more than 1.6% of invested assets.

The following tables summarize the Company's available for sale portfolio by security type as of December 31, 2013 and December 31, 2012:

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

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

$ in Millions December 31, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agency securities	$3,248	$281	($1)	$3,528
Residential MBS	8,259	530	(4)	8,785
Commercial MBS	1,649	78	(1)	1,726
Other MBS and ABS	2,332	155	(1)	2,486
U.S. state and municipal	13,235	1,350	(19)	14,566
Corporate and other	24,323	2,162	(53)	26,432
Foreign government securities	6,320	299	(48)	6,571
Total fixed maturities	59,366	4,855	(127)	64,094
Common stock	1,791	369	(63)	2,097
Preferred stock	422	25	(49)	398
Total equity securities	2,213	394	(112)	2,495
Total securities available for sale	$61,579	$5,249	($239)	$66,589

The following table summarizes the Company's mortgage and asset-backed fixed maturity portfolio by credit quality as of December 31, 2013:

$ in Millions	As of December 31, 2013							
Mortgage & Asset-Backed Fixed Maturities by Credit Quality[1]	**AAA**	**AA**	**A**	**BBB**	**BB**	**B or Lower**	**Total**	**% of Total**
SBA loans	$1,872	$-	$-	$-	$-	$-	$1,872	14.9%
GNMA residential mortgage	3,978	5	-	-	-	-	3,983	31.6
FNMA residential mortgage	2,583	-	-	-	-	-	2,583	20.5
FHLMC residential mortgage	1,617	-	-	-	-	-	1,617	12.8
Prime residential mortgage	10	2	3	9	7	164	195	1.6
Alt-A residential mortgage	-	13	-	7	5	119	144	1.1
Sub-prime residential mortgage	24	-	3	1	5	19	52	0.4
Commercial MBS	1,595	48	6	68	-	-	1,717	13.6
Non-mortgage ABS	255	7	51	108	4	9	434	3.5
Total	$11,934	$75	$63	$193	$21	$311	$12,597	100.0%
% of Total	94.7%	0.6%	0.5%	1.5%	0.2%	2.5%	100.0%	

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

Approximately 80% of the Company's mortgage and asset-backed fixed maturity portfolio is explicitly backed by the U.S. government (SBA and GNMA) or by government-sponsored entities (FNMA and FHLMC). Over 94% of the holdings are rated AAA. The commercial mortgage-backed securities portfolio is well diversified and of high quality with approximately 96% rated AA or above.

The following table summarizes the Company's allocation of fixed maturities by credit quality as of December 31, 2013 and December 31, 2012:

$ in Millions	As of December 31, 2013		As of December 31, 2012	
Fixed Maturities by Credit Quality[1]	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
AAA	$21,122	32.9%	$22,015	34.3%
AA+, AA, AA-	11,337	17.6	10,993	17.2
A+, A, A-	14,611	22.7	13,913	21.7
BBB+, BBB, BBB-	12,122	18.9	11,865	18.5
Total investment grade	59,192	92.1	58,786	91.7
BB+, BB, BB-	1,566	2.4	1,523	2.4
B+, B, B-	2,809	4.4	2,889	4.5
CCC or lower	689	1.1	896	1.4
Total below-investment grade	5,064	7.9	5,308	8.3
Total fixed maturities	$64,256	100.0%	$64,094	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 remained at 92% at December 31, 2013, consistent with December 31, 2012. Overall, the average credit quality rating stands at A+ as of December 31, 2013. The Company's holdings of below investment grade securities primarily consist of an actively managed diversified portfolio of high yield securities and syndicated bank loans within the domestic insurance portfolios and investments in emerging

market sovereign and corporate debt primarily in support of the Company's international insurance operations.

The following table summarizes available for sale fixed maturity securities by contractual maturity at December 31, 2013 and December 31, 2012. 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 December 31, 2013		As of December 31, 2012	
Fixed Maturities by Maturity Date	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
One year or less	$3,521	5.5%	$3,337	5.2%
Over one year through five years	19,107	29.7	19,275	30.1
Over five years through ten years	17,331	27.0	15,808	24.7
Over ten years	11,700	18.2	12,677	19.7
MBS and ABS	12,597	19.6	12,997	20.3
Total fixed maturities	$64,256	100.0%	$64,094	100.0%

During 2013, 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 twelve months ended December 31, 2013 and 2012:

$ in Millions	Three Months Ended December 31,		Twelve Months Ended December 31,	
Net Investment Income	**2013**	**2012**	**2013**	**2012**
Taxable interest income	$577	$596	$2,288	$2,467
Tax-exempt interest income	108	111	443	449
Dividends	16	17	65	60
LP and LLC income	266	99	612	353
Commercial mortgage loans	24	21	91	81
Other investment loss	(60)	(13)	(171)	(22)
Gross investment income	931	831	3,328	3,388
Investment expenses	(36)	(43)	(142)	(151)
Net investment income[1]	$895	$788	$3,186	$3,237

[1]The above table contains net investment income attributable to discontinued operations of $12 million and $13 million for the three months ended December 31, 2013 and 2012, respectively, and $49 million and $53 million for the twelve months ended December 31, 2013 and 2012, respectively.

Net investment income for the three and twelve months ended December 31, 2013 was $895 million and $3.186 billion, an increase of $107 million and a decrease of $51 million, respectively, from the same periods in 2012. Both periods reflect higher valuation increases in LP and LLC investments, primarily in the energy sector, and a higher invested asset base as a result of continued reinvestment of cash flow from operations. These increases are partially offset in the quarter and more than offset on the year by a reduction in taxable interest income due to lower investment yields, as well as valuation decreases in other equity method investments, primarily related to impairment losses in the natural resources sector.

Net Realized Gains (Losses)

The following tables summarize the Company's net realized gains (losses) for the three and twelve months ended December 31, 2013 and 2012:

$ in Millions Net Realized Gains (Losses)	**Sales & Dispositions**	**Impairments**	**Change in Derivatives Value**	**Total**
Three Months Ended December 31, 2013:				
Fixed maturities	$36	($48)	$-	($12)
Common and preferred stock	102	(2)	-	100
Other	(16)	(7)	-	(23)
Total	$122	($57)	$-	$65
Three Months Ended December 31, 2012:				
Fixed maturities	$53	($1)	$-	$52
Common and preferred stock	(10)	(19)	-	(29)
Other	195	(13)	(20)	162
Total	$238	($33)	($20)	$185

$ in Millions Net Realized Gains (Losses)	**Sales & Dispositions**	**Impairments**	**Change in Derivatives Value**	**Total**
Twelve Months Ended December 31, 2013:				
Fixed maturities	$95	($299)	$-	($204)
Common and preferred stock	287	(10)	-	277
Other	(29)	(25)	(8)	(62)
Total	$353	($334)	($8)	$11
Twelve Months Ended December 31, 2012:				
Fixed maturities	$291	($46)	$-	$245
Common and preferred stock	56	(56)	-	-
Other	337	(13)	(35)	289
Total	$684	($115)	($35)	$534

$ in Millions	Three Months Ended December 31,		Twelve Months Ended December 31,	
Components of Net Realized Gains	**2013**	**2012**	**2013**	**2012**
Fixed maturities:				
Gross realized gains	$50	$69	$187	$352
Gross realized losses	(62)	(17)	(391)	(107)
Equities:				
Gross realized gains	111	-	329	76
Gross realized losses	(11)	(29)	(52)	(76)
Other:				
Gross realized gains	2	203	41	367
Gross realized losses	(25)	(41)	(103)	(78)
Total net realized gains	$65	$185	$11	$534

Net realized gains for the three and twelve months ended December 31, 2013 were $65 million and $11 million, respectively, versus $185 million and $534 million in the same periods in 2012. The decreases in net gains in both periods relate to energy sector gains in 2012 that did not recur in 2013, 2012 gains from the sale of a business segment in Argentina and contingent consideration recognized in connection with the prior sale of certain Commercial Insurance policy renewal rights in 2009, and fixed maturity impairment losses recognized in 2013. The year to date decrease also includes impairment losses taken as a result of the Venezuela devaluation in February 2013 being deemed other-than-temporary and gains taken on fixed maturity sales in 2012 that did not recur in 2013. These decreases were partially offset by increased gains recognized in 2013 related to equity sales.

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 December 31, 2013 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	($26)	$1,159	($2)	$4
Residential MBS	(96)	3,006	(6)	90
Commercial MBS	(23)	646	(11)	167
Other MBS and ABS	(43)	997	(5)	60
U.S. state and municipal	(224)	2,750	(59)	309
Corporate and other	(292)	7,087	(62)	556
Foreign government securities	(38)	1,459	(34)	533
Total fixed maturities	(742)	17,104	(179)	1,719
Common stock	(12)	185	(9)	67
Preferred stock	(1)	23	(76)	225
Total equity securities	(13)	208	(85)	292
Total securities available for sale	($755)	$17,312	($264)	$2,011

Unrealized losses increased from $239 million as of December 31, 2012 to $1.019 billion as of December 31, 2013 primarily related to an increase in treasury yields partially mitigated by spread tightening. Unrealized losses less than 12 months increased from $70 million at December 31, 2012 to $755 million as of December 31, 2013. Unrealized losses 12 months or longer increased from $169 million as of December 31, 2012 to $264 million as of December 31, 2013. Of the $9 million unrealized losses 12 months or longer on common stock, $4 million relates to securities associated with non-guaranteed unit linked products where the policyholder bears the investment risk. As of December 31, 2013, there were 619 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 devaluation adjustments) of a particular investment is temporary, the decline is recorded as an unrealized loss in policyholders' equity. If the decline is believed to be other-than-temporary, and the Company believes that it will not be able to collect all cash flows due on its fixed maturity securities, then the carrying value of the investment is written down to the expected cash flow amount and a realized loss is recorded as a credit impairment. A non-credit impairment loss is recognized in other comprehensive income, net of applicable taxes, as the difference between expected cash flows and fair value. For the three and twelve months ended December 31, 2013, the Company recorded $48 million and $299 million, respectively, of fixed maturity impairment losses. Fixed maturity impairment losses for the twelve months ended are primarily driven by the Company's decision to treat the Venezuela devaluation as an other-than-temporary impairment. The Company has concluded that the remaining gross unrealized losses of fixed maturity securities as of December 31, 2013 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 December 31, 2013 resulted primarily from decreases in quoted fair values from the dates that certain investment securities were acquired as opposed to fundamental changes in the issuer's financial performance and near-term financial prospects. For the three and twelve months ended December 31, 2013, the Company recorded $2 million and $10 million in impairment losses on equity securities. The Company has concluded that the gross unrealized losses of equity securities as of December 31, 2013 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 December 31, 2013 (including cash and cash equivalents) totaled $78.882 billion.

Debt outstanding as of December 31, 2013 and December 31, 2012 was as follows:

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

$ in Millions	**As of December 31, 2013**	**As of December 31, 2012**
Current maturities of long-term debt[1]	$343	$286
Total short-term debt and current maturities of long-term debt	$343	$286

[1] 2013 includes $239 million of 5.75% Notes due 3/15/2014 and $104 million of 7.30% Notes due 6/15/2014. 2012 includes $25 million of 7.86% Medium Term Notes due 5/31/2013 and $260 million of 8.00% Notes due 10/31/2013.

Long-term debt:

$ in Millions	As of December 31, 2013	As of December 31, 2012
5.75% Notes, due 2014	$ -	$239
7.30% Notes, due 2014	-	104
5.588% Mortgage loan, due 2015	47	47
6.70% Notes, due 2016	249	249
7.00% Junior Subordinated notes, due 2067[1]	300	300
5.00% Notes, due 2021	600	600
4.95% Notes, due 2022	750	750
4.25% Notes, due 2023	1,000	-
8.50% Surplus notes, due 2025	140	140
7.875% Surplus notes, due 2026	227	227
7.625% Notes, due 2028	3	3
3.91% - 4.25% Federal Home Loan Bank Borrowings, due 2032	300	300
7.00% Notes, due 2034	231	231
6.50% Notes, due 2035	471	471
7.50% Notes, due 2036	19	19
7.80% Junior Subordinated notes, due 2087[2]	700	700
10.75% Junior Subordinated notes, due 2088[3]	255	620
6.50% Notes, due 2042	750	750
7.697% Surplus notes, due 2097	260	260
Subtotal	6,302	6,010
Unamortized discount	(17)	(20)
Total long-term	$6,285	$5,990

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

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

Debt Transactions and In-force Credit Facilities

During the three and twelve months ended December 31, 2013, the Company repurchased $97 million and $365 million, respectively, of the 10.75% Junior Subordinated notes due 2088. Pre-tax losses of $55 million and $211 million, respectively, were recorded on these transactions and are included in loss on extinguishment of debt in the accompanying Consolidated Statements of Income.

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

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

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

On May 4, 2012 and August 17, 2012, LMGI issued $500 million and $250 million of Senior Notes due 2022 (the "2022 Notes"), respectively. Also, on May 4, 2012 and August 17, 2012, LMGI issued $500 million and $250 million of Senior Notes due 2042 (the "2042 Notes"), respectively. Interest is payable semi-annually at a fixed rate of 4.95% for the 2022 Notes and 6.50% for the 2042 Notes. The 2022 Notes mature on May 1, 2022 and the 2042 Notes mature on May 1, 2042.

On April 18, 2012, the Company announced the commencement of two tender offers. The first offer was a cash tender offer to purchase up to $350 million, subject to increase, of the aggregate principal amount of (i) LMGI's 10.75% Series C Junior Subordinated Notes due 2088 by LMGI and (ii) LMIC's 7.697% Surplus Notes due 2097 by LMIC, each at a purchase price determined in accordance with the procedures of a modified "Dutch Auction" (the "Dutch Auction Offer"). The second offer was a cash tender offer by LMGI to purchase up to $350 million, subject to increase, of the aggregate principal amount of its 5.75% Senior Notes due 2014 and its 7.30% Senior Notes due 2014, each at a price determined by reference to a fixed spread above the bid-side yield on the applicable reference security and accepted in accordance with the acceptance priority level set forth in the tender documents (the "Waterfall Offer"). The Waterfall Offer was conditioned on LMGI issuing at least $350 million aggregate principal amount of new senior notes. The Waterfall Offer was increased to include all notes tendered in the Waterfall Offer. The Dutch Auction Offer was increased by up to $175 million in aggregate principal amount to permit the additional purchase of the applicable notes tendered at the full tender offer consideration. The tender offers expired on May 15, 2012 and the Company paid in aggregate approximately $949 million in connection with such tender offers, including approximately $17 million in accrued and unpaid interest, to holders of the Notes involved in the tender offers. As a result of these transactions, the Company recorded pre-tax losses of $147 million that are included in loss on extinguishment of debt in the accompanying Consolidated Statements of Income. After completion of the tender offers, the following principal amounts remained outstanding for such notes, $676 million of the 10.75% Series C Junior Subordinated Notes due 2088, $260 million of the 7.697% Surplus Notes due 2097, $239 million of the 5.75% Senior Notes due 2014 and $104 million of the 7.30% Senior Notes due 2014.

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 December 31, 2013, 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 twelve months ended December 31, 2013 was $105 million and $420 million, no change for the three months ended December 31, 2013 and an increase of $1 million for the twelve months ended December 31, 2013. Interest expense reflects the new debt issuances in 2012 and 2013, offset by the completion of tender offers, repurchases and maturities. As previously discussed, the Company continues to evaluate market conditions and may periodically effect transactions in its debt, subject to applicable limitations. Debt repurchases may be done through open market or other appropriate transactions.

Holding Company Liquidity and Capital Resources

The Company conducts substantially all of its operations through its wholly owned insurance and service company subsidiaries, and therefore is primarily dependent on dividends, distributions, loans or other payments of funds from these entities to meet its current and future obligations. However, the subsidiaries are separate and distinct legal entities and have no obligation to make funds available to the Company, whether in the form of loans, dividends or other distributions. As of December 31, 2013, the Company, through its downstream subsidiary LMGI, had $5.646 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, 2013) and 2014 available dividend capacity prior to needing regulatory approval for LMIC, LMFIC and EICOW were as follows:

$ in Millions	**RBC Ratio[1]**		**Dividend Capacity[2]**	**Dividends Paid[3]**
RBC Ratios and Dividend Capacity	**2013**	**2012**	**2014**	**2013**
LMIC	474%	457%	$1,465	$200
LMFIC	453%	343%	79	$4
EICOW	427%	567%	43	-

[1] Authorized control level risk-based capital as defined by the NAIC.
[2] Represents the estimated maximum allowable dividend without prior regulatory approval in the state of domicile.
[3]Dividends paid represent amounts paid during the twelve months ended December 31, 2013. Available dividend capacity as of December 31, 2013 is calculated as 2014 dividend capacity less dividends paid for the preceding 12 months.

LMGI also has access to the following sources of funding:

- A management services agreement with LMIC pursuant to which LMGI is entitled to collect certain costs plus a management fee for services rendered by LMGI employees.
- Investment management agreements with affiliated entities pursuant to which an LMGI subsidiary registered investment advisor is entitled to recover annual expenses for investment management services performed by its employees.
- 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 twelve months ended December 31, 2013, LCS recorded $81 million and $408 million in pre-tax income.

- Approximately $80 million of annual dividends related to non-redeemable perpetual preferred stock issuances by LMIC and LMFIC.

Statutory Surplus

Statutory surplus as regards policyholders for the combined operations of LMIC and its U.S affiliates, including international branches, was $17.508 billion and $16.521 billion at December 31, 2013 and December 31, 2012, respectively. The increase in surplus primarily reflects net income of $713 million (the sum of earnings from Company's 58 domestic property-casualty insurance companies and dividends from subsidiaries), affiliated unrealized gains of $181 million, unaffiliated unrealized gains of $86 million, and other changes in surplus of $7 million. Other changes in surplus is primarily driven by goodwill amortization expense, dividends to stockholders, non-admitted assets, and foreign currency translation, partially offset by a decrease in non-admitted goodwill, an increase in net deferred tax assets, and a capital contribution.

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) 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 New Accounting Standards

None of the accounting standards issued in 2013 had a material impact on the Company in the current year.

Future Adoption of New Accounting Standards

None of the accounting standards issued in 2013 will have a material impact on the Company in the future.

Unpaid Claims and Claim Adjustment Expenses

Reserves for property-casualty unpaid claims and claim adjustment expenses were $52.750 billion and $51.885 billion as of December 31, 2013 and December 31, 2012, respectively.

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

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

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

Asbestos and Environmental

The Company's asbestos and environmental reserves for unpaid claims and claim adjustment expenses, net of reinsurance increased $122 million from $1.207 billion as of December 31, 2012 to $1.329 billion as of December 31, 2013.

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

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

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

Reinsurance Recoverables

The Company reported reinsurance recoverables of $11.786 billion and $13.232 billion at December 31, 2013 and December 31, 2012, respectively, net of allowance for doubtful accounts of $163 million and $275 million, respectively. The decrease in reinsurance recoverables is primarily due to the commutations of four excess of loss retroactive reinsurance agreements. Included in these balances are $607 million and $905 million of paid recoverables and $11.342 billion and $12.602 billion of unpaid recoverables, respectively.

The Company's reinsurance recoverables from Nationwide Indemnity Company have been fully guaranteed by its parent, Nationwide Mutual Insurance Company, which has a financial strength rating of A+ from Standard & Poor's and A+ from A.M. Best. The reinsurance recoverables from state mandated involuntary pools and associations primarily represent the Company's servicing carrier business. As a servicing carrier, the Company retains no direct underwriting risk but instead cedes 100% of the involuntary market premium and losses back to the pool. Payment of losses is shared by the pool participants in proportion to their pool participation. Reinsurer credit risk with respect to any such involuntary pool or association is a function of the creditworthiness of all the pool participants.

As part of its reinsurance security oversight, the Company has established a Credit Risk Committee (the "Committee") that meets quarterly to monitor and review the credit quality of the existing reinsurance portfolio, discuss emerging trends in the reinsurance marketplace, and ensure that the current portfolio of

reinsurance is in compliance with the Committee's security standards. The Committee is directly responsible for establishing the rating, collateral, and diversification requirements governing the Company's purchase and use of reinsurance.

Approximately 96% and 93% of the Company's reinsurance recoverable balance, net of collateral held and including voluntary and involuntary pools and associations, was from reinsurers rated A- or better from A.M. Best and Standard & Poor's, respectively, at December 31, 2013. Collateral held against outstanding gross reinsurance recoverable balances was $4.085 billion and $4.838 billion at December 31, 2013 and December 31, 2012, respectively.

The remaining 4% and 7% of the Company's net reinsurance recoverable balance is well diversified. No single reinsurer rated B++ or below by A.M. Best or below A- by Standard & Poor's accounts for more than 2% of GAAP equity. In addition, the average net reinsurance recoverable balance from individual reinsurers rated below A- or not rated by A.M. Best and Standard & Poor's was approximately $1 million as of December 31, 2013.

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured business. The Company evaluates and monitors the financial condition of its reinsurers under voluntary reinsurance arrangements to minimize its exposure to significant losses from reinsurer insolvencies. The Company reports its reinsurance recoverables net of an allowance for estimated uncollectible reinsurance recoverables. The allowance is based upon the Company's ongoing review of amounts outstanding, length of collection periods, changes in reinsurer credit standing and other relevant factors. Accordingly, the establishment of reinsurance recoverables and the related allowance for uncollectible reinsurance recoverables is also an inherently uncertain process involving estimates. Changes in these estimates could result in additional charges to the Consolidated Statements of Income.

The Company has an aggregate stop loss program covering substantially all of Commercial Insurance's voluntary workers compensation business from the fourth quarter 2000 through the fourth quarter 2002 accident year periods. A significant portion of the consideration was retained on a "funds held" basis and interest is credited on the balance at an average rate of 8.5% annually. Under the 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. Additional premium and loss activity on these retroactive and prospective contracts was immaterial in 2013 and 2012. Approximately $17 million and $10 million of additional losses were ceded to these retroactive and prospective contracts, respectively, during the year ended December 31, 2011, with additional premium of $11 million and $7 million, respectively. The impact to the accompanying Consolidated Statements of Income from ceding the additional losses and premium on the 2001 covered accident year period was deferred for GAAP purposes and is amortized into income using the effective interest method over the estimated settlement period.

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

As of December 31, 2013, and 2012, deferred gains related to the aggregate stop loss program and the four commuted reinsurance arrangements were $8 million and $296 million, respectively, and are included in other liabilities within the accompanying consolidated balance sheets. Interest credited to the funds held balances for the years ended December 31, 2013, 2012, and 2011 was $72 million, $83 million, and $105 million, respectively. Deferred gain amortization was $337 million, $29 million, and $129 million for the years ended December 31, 2013, 2012, and 2011, respectively. Reinsurance recoverables related to these transactions, including experience related profit accruals, were $72 million and $1.165 billion as of December 31, 2013 and 2012, respectively.

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

Impairment Losses on Investments

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

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

Subsequent to December 31, 2013, the Company has not recognized any additional material other-than-temporary impairments.

Variable Interest Entities

The Company invests in limited partnerships and other entities subject to variable interest entity ("VIE") analysis under the VIE subsections of Accounting Standards Codification ("ASC") 810, *Consolidation*. The Company analyzes each investment to determine whether it is a VIE, and if so, whether the Company is the primary beneficiary or a significant interest holder based on a qualitative and quantitative assessment. The Company evaluates the design of the entity, the risks to which the entity was designed to expose the variable interest holder and the extent of the Company's control of and variable interest in the VIE. As of

December 31, 2013 the Company has determined that it is the primary beneficiary of one VIE in the low-income housing tax credit sector, and as such, this VIE has been consolidated in the Company's financial statements. The carrying value of assets and liabilities and the Company's maximum exposure to loss of the consolidated VIE as of December 31, 2013 and December 31, 2012 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 $212 million and $282 million as of December 31, 2013 and December 31, 2012, respectively, and the Company's maximum exposure to loss was $242 million and $340 million as of December 31, 2013 and December 31, 2012, respectively. The assets are included in Other Investments on the accompanying Consolidated Balance Sheets. Maximum exposure to loss includes the carrying value and unfunded commitment of the VIEs. There is no recourse provision to the general credit of the Company for any VIEs beyond the full amount of the Company's loss exposure.

Deferred Acquisition Costs

Total deferred acquisition costs were $3.115 billion and $2.732 billion as of December 31, 2013 and December 31, 2012, respectively. Deferred acquisition costs are costs that are directly related to the acquisition or renewal of insurance contracts. All other acquisition related costs, including market research, training, administration, unsuccessful acquisition or renewal efforts, and product development, are charged to expense as incurred. Deferred acquisition costs are reviewed annually for recoverability. Investment income is considered in the recoverability assessment. For short-duration insurance contracts, acquisition costs include commissions, underwriting expenses, and premium taxes and assessments. For long-duration insurance contracts, these costs include first year commissions in excess of annual renewal commissions and variable sales and underwriting expenses.

Goodwill

Goodwill assets were $4.820 billion and $4.850 billion as of December 31, 2013 and December 31, 2012, respectively. Goodwill is tested for impairment at least annually using either a qualitative or a quantitative process. Election of the approach can be made at the reporting unit level. The reporting unit has the option to skip the qualitative test and move directly to completion of the quantitative process. The Company's SBUs are deemed reporting units. The qualitative approach can be used to evaluate if there are any indicators of impairment. Through this process, the reporting unit must determine if there is indication that it is more likely than not that the fair value of the reporting unit is less than its carrying amount, including goodwill. If it is determined that there is an indication of potential impairment, the reporting unit must complete the quantitative process. The quantitative approach is a two-step process. The first step is performed to identify potential impairment and, if necessary, the second step is performed for the purpose of measuring the amount of impairment, if any. Impairment is recognized only if the carrying amount is not recoverable from the discounted cash flows using a "market" rate and is measured as the difference between the carrying amount and the implied fair value. Other changes in the carrying amount of goodwill are primarily caused by foreign currency translation adjustments and acquisitions.

In 2013, the Company utilized a qualitative test in accordance with the Company's accounting policy. In 2012, as a result of the realignment of the Company's SBUs on July 24, 2012, the Company performed a relative fair value assessment to reallocate the existing goodwill to the SBUs. In conjunction with the reallocation the Company performed a quantitative impairment assessment of goodwill for each of the SBUs. In line with the Company's annual impairment testing timeline, a qualitative test was performed by each SBU as of August 31, 2012.

Deferred Income Taxes

The net deferred tax asset was $1.251 billion and $1.102 billion as of December 31, 2013 and December 31, 2012, net of a valuation allowance of $173 million and $185 million respectively. The net increase in the Company's net deferred income tax asset is primarily due to changes in net unrealized capital gains and losses on investments, offset by changes in employee benefits. The valuation allowance is primarily due to net operating losses generated in certain foreign subsidiaries where there is uncertainty in the timing and amount of realization of those losses. Management believes it is more likely than not that the Company's net deferred income tax asset will be realized based upon the Company's ability and the likelihood of generating future taxable income.

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

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

Balance at December 31, 2012	$356
Additions based on tax positions related to current year	15
Reductions based on tax positions related to current year	(6)
Additions for tax positions of prior years	100
Reductions for tax positions of prior years	(145)
Settlements	(15)
Translation	(7)
Balance at December 31, 2013	$298

Included in the tabular roll forward of unrecognized tax benefits is interest and penalties in the amount of $93 million and $102 million as of December 31, 2013 and December 31, 2012, respectively.

Included in the balance at December 31, 2013, is $153 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 December 31, 2013 and 2012, the Company recognized $(16) and $8 million of interest and penalties in each period. For the years ended December 31, 2013 and 2012, the Company recognized $(11) million and $15 million of interest and penalties, respectively. The Company had $95 million and $106 million of interest and penalties accrued as of December 31, 2013 and December 31, 2012, respectively.

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

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

Other

In December 2013, Liberty UK and Europe Holdings Limited ("Liberty UK") purchased 99,000,000 ordinary shares representing the remaining 49% non-controlling interest in Liberty Mutual Ireland

Investment Holdings Limited ("Ireland Holdings") from an affiliate of Irish Bank Resolution Corporation Limited (in Special Liquidation). In November 2011, Ireland Holdings, through its subsidiary, Liberty Insurance Limited, acquired certain of the assets and assumed certain of the liabilities of QIL related to QIL's marketing and underwriting of insurance policies in the Republic of Ireland, representing a 51% controlling interest. As a result of these actions, Liberty UK owns 100% of Ireland Holdings.

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 2012 direct written premium. The Company also ranks 81st on the Fortune 100 list of largest corporations in the U.S. based on 2012 revenue. As of December 31, 2013, LMHC had $121.282 billion in consolidated assets, $102.270 billion in consolidated liabilities, and $38.509 billion in annual consolidated revenue.

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

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

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