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

Year Ended December 31, 2014

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

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

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Cautionary Statement Regarding Forward Looking Statements

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

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

EXECUTIVE SUMMARY

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

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

- Revenues for the three months ended December 31, 2014 were $9.948 billion, a decrease of $7 million or 0.1% from the same period in 2013.
- Net written premium ("NWP") for the three months ended December 31, 2014 was $8.857 billion, an increase of $95 million or 1.1% over the same period in 2013.
- Pre-tax operating income ("PTOI") for the three months ended December 31, 2014 was $900 million, an increase of $275 million or 44.0% over the same period in 2013.
- Catastrophe losses for the three months ended December 31, 2014 were $155 million, an increase of $54 million or 53.5% over the same period in 2013.
- Pre-tax loss associated with the Venezuela devaluation and foreign exchange under hyper inflationary accounting (including other-than-temporary impairments) was $17 million (net of $44 million of PTOI) in 2014 compared to a pre-tax gain of $20 million in the same period in 2013. There were no impairments in the fourth quarter of 2013.
- Net operating income for the three months ended December 31, 2014 was $651 million, an increase of $177 million or 37.3% over the same period in 2013.
- Net income attributable to LMHC for the three months ended December 31, 2014 was $559 million, an increase of $63 million or 12.7% over the same period in 2013.
- 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, 2014 was 92.9%, an improvement of 3.1 points over the same period in 2013. 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, 2014 improved 6.6 points to 93.5%.
- Cash flow provided by operations for the three months ended December 31, 2014 was $1.169 billion, an increase of $140 million or 13.6% over the same period in 2013.

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[1]Catastrophes include all current accident year catastrophe losses for severe storms in the U.S., U.K. and Ireland floods, Windstorm Ela, Cyclone Oswald, Central European floods, Alberta floods, German hailstorm, Hurricane Odile 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 the current accident year loss reserves for the nine months ended September 30, 2014 and 2013.

Twelve Months Ended December 31, 2014 - Consolidated Results of Operations

- Revenues for the twelve months ended December 31, 2014 were $39.631 billion, an increase of $1.233 billion or 3.2% over the same period in 2013.

- NWP for the twelve months ended December 31, 2014 was $36.275 billion, an increase of $1.159 billion or 3.3% over the same period in 2013.

- PTOI for the twelve months ended December 31, 2014 was $2.970 billion, an increase of $504 million or 20.4% over the same period in 2013.

- Catastrophe losses for the twelve months ended December 31, 2014 were $1.606 billion, an increase of $344 million or 27.3% over the same period in 2013.

- Pre-tax loss associated with the Venezuela devaluation and foreign exchange under hyper inflationary accounting (including other-than-temporary impairments) was $153 million (net of $162 million of PTOI) in 2014 compared to a pre-tax loss of $19 million (net of $204 million of PTOI) in the same period in 2013.

- Net operating income for the twelve months ended December 31, 2014 was $2.236 billion, an increase of $311 million or 16.2% over the same period in 2013.

- A net loss of $77 million associated with the disposition of the Argentina operations is included within Discontinued Operations for the twelve months ended December 31, 2014.

- Net income attributable to LMHC for the twelve months ended December 31, 2014 was $1.833 billion, an increase of $90 million or 5.2% over the same period in 2013.

- During the year, the Company entered into a retroactive aggregate excess of loss agreement (the "NICO Reinsurance Transaction") with National Indemnity Company ("NICO"). The NICO Reinsurance Transaction is accounted for as retroactive reinsurance in the Company's GAAP consolidated financial statements and resulted in a pre-tax loss of $128 million as of the effective date, which was included in the third quarter results. Subsequent to the effective date, the Company recorded $85 million of net asbestos and environmental ("A&E") and workers compensation adverse development. Since the cumulative claims and claim adjustment expenses ceded (including the $85 million of adverse prior year development) have not exceeded the consideration paid, the Company was able to recognize $85 million of retroactive reinsurance benefit. See the Consolidated Results of Operations Section for additional details of the transaction.

- The consolidated combined ratio before catastrophes and net incurred losses attributable to prior years for the twelve months ended December 31, 2014 was 92.8%, an improvement of 2.4 points over the same period in 2013. Including the impact of catastrophes and net incurred losses attributable to prior years, the Company's combined ratio for the twelve months ended December 31, 2014 improved 2.2 points to 97.5%.

- Cash flow provided by operations for the twelve months ended December 31, 2014 was $1.237 billion, a decrease of $2.920 billion or 70.2% from the same period in 2013. The decrease reflects approximately $3.0 billion total consideration paid to fund the NICO Reinsurance Transaction.

Financial Condition as of December 31, 2014

- Total assets were $124.304 billion as of December 31, 2014, an increase of $3.022 billion or 2.5% over December 31, 2013.

- Total equity was $20.302 billion as of December 31, 2014, an increase of $1.290 billion or 6.8% over December 31, 2013.

CONSOLIDATED RESULTS OF OPERATIONS

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

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

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

On July 17, 2014, the Company entered into the NICO Reinsurance Transaction with NICO, a subsidiary of Berkshire Hathaway Inc., on a combined aggregate adverse development cover for substantially all of the Company's U.S. workers compensation (pre-2014 accident year) and A&E liabilities, attaching at approximately $12.5 billion of combined aggregate reserves, with an aggregate limit of $6.5 billion and sublimits of $3.1 billion for A&E liabilities and $4.5 billion for certain workers compensation liabilities. At the closing of the NICO Reinsurance Transaction, but effective as of January 1, 2014, the Company ceded approximately $3.3 billion of existing liabilities under this retroactive reinsurance agreement. NICO will provide approximately $3.2 billion of additional aggregate adverse development cover. The Company paid NICO total consideration of approximately $3.0 billion. In general terms, the covered business includes post December 31, 2013 development on: (1) A&E liabilities arising under policies of insurance and reinsurance with effective dates prior to January 1, 2005; and (2) workers compensation liabilities arising out of policies on the books of the Company's Commercial Insurance SBU as of December 31, 2013, as respects injuries or accidents occurring prior to January 1, 2014. With respect to the ceded A&E business, NICO has been given authority to handle claims, subject to the Company's oversight and control. With respect to the ceded workers compensation business, the Company will continue to handle claims. The NICO Reinsurance Transaction is accounted for as retroactive reinsurance in the Company's GAAP consolidated financial statements and resulted in a pre-tax loss of $128 million as of the effective date, which was included in the third quarter results. Subsequent to the effective date, the Company recorded $85 million of net A&E and workers compensation adverse development. Since the cumulative claims and claim adjustment expenses ceded (including the $85 million of adverse prior year development) have not exceeded the consideration paid, the Company was able to recognize $85 million of retroactive reinsurance benefit. Once the aggregate of workers compensation and A&E development exceeds the original pre-tax loss, deferred gains will be recorded. Deferred gains are subsequently amortized into earnings over the period when underlying claims are settled.

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

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

On June 12, 2014, the Company announced its plans to acquire Hughes Insurance ("Hughes Insurance Agreement"), an independent insurance broker in Northern Ireland, in a transaction expected to close on or about July 1, 2015 for approximately $73 million. The Company's subsidiary in Ireland has agreed to become the primary underwriter of Hughes Insurance in Northern Ireland. Hughes Insurance offers motor, van, household, small-to-medium-enterprise commercial insurance and travel insurance with £60 million in gross written premium for the financial year ended March 31, 2014, making it the independent insurance broker with the largest amount of gross written premium in Northern Ireland for that year. The Company distributes 1 in 5 motor insurance policies sold in Northern Ireland and employs over 300 people.

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

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

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

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

In January 2014, the Venezuelan government issued Exchange Agreement No. 25, which required the use of a secondary exchange auction system referred to as the Complimentary System of Foreign Currency Acquirement ("SICAD I") that will be applied prospectively to certain transactions that previously were subject to the official rate. The National Center for Foreign Trade will be responsible for determining the sectors that will be allowed to buy U.S. dollars through the SICAD I auction. Upon announcement of Exchange Agreement No. 25 and completing consultation with external and internal advisors, the Company concluded that effective January 31, 2014, its operations no longer qualify for settlements at the official rate and elected to apply prospectively the SICAD I rates to the remeasurement of its Venezuela operations as this is believed the rate at which transactions will be settled prospectively. As SICAD I is an auction process, rates of bolivar ("VEF") to U.S. dollar will continue to fluctuate as it did from January 31, 2014 (11.36:1) to December 31, 2014 (12.00:1).

For the twelve months ended December 31, 2014, the aforementioned change resulted in the Company recognizing $162 million of PTOI comprised of a net loss from remeasuring its monetary assets and liabilities ($187 million), the net gain from the earn-through of unearned premium and amortization of

deferred acquisition costs at historical rates of $372 million and the amortization of basis on certain investments ($23 million). The Company also recognized a ($315 million) loss on the impairment of investments. In total, the Company recognized a pre-tax loss of ($153 million) in the Consolidated Statements of Income as well as a reduction of $128 million in other comprehensive income. As of December 31, 2014 the Company had GAAP equity of approximately $900 million, which could be impacted by a future devaluation charge.

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

In February 2013, the Finance Minister in Venezuela announced the devaluation of the VEF by 32% to VEF 6.3:1 from VEF 4.3:1 and the elimination of the Sistema de Transacciones con Titulos en Moneda Extranjera (SITME) rate. As a result of the devaluation, the Company recognized a net $207 million gain in PTOI comprised of a net loss, primarily from remeasuring its monetary assets and liabilities ($14 million), offset by a net gain from the earn-through of unearned premium and amortization of deferred acquisition costs at historical rates of $233 million and the amortization of basis on certain investments ($12 million). The Company also recognized a $223 million loss on the impairment of investments. In total, the Company recognized a pre-tax loss of $16 million in the Consolidated Statements of Income as well as a reduction of $59 million in other comprehensive income attributable to unrealized losses on certain investments.

The Company's four SBUs are as follows:

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

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

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

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

Overview – Consolidated

Consolidated NWP by significant line of business was as follows:

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2014**	**2013**	**Change**	**2014**	**2013**	**Change**
Private passenger automobile	$3,352	$3,268	2.6%	$13,207	$12,665	4.3%
Homeowners	1,350	1,338	1.0	5,599	4,935	13.5
Specialty insurance[1]	716	658	8.8	2,941	2,633	11.7
Commercial multiple-peril / fire	615	602	2.2	2,573	2,580	(0.3)
Workers compensation - Voluntary	479	550	(12.9)	2,149	2,499	(14.0)
Workers compensation - Involuntary	21	47	(55.3)	85	138	(38.4)
Global specialty reinsurance	136	154	(11.7)	1,045	1,167	(10.5)
Commercial automobile	488	466	4.7	1,910	1,853	3.1
General liability	391	317	23.3	1,550	1,360	14.0
Group disability and group life	345	319	8.2	1,393	1,287	8.2
Individual life and health	274	284	(3.5)	1,016	1,029	(1.3)
Surety	182	190	(4.2)	764	760	0.5
Global specialty inland marine	103	171	(39.8)	442	614	(28.0)
Other[2]	405	398	1.8	1,601	1,596	0.3
Total NWP[3]	$8,857	$8,762	1.1%	$36,275	$35,116	3.3%

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

NWP for the three and twelve months ended December 31, 2014 was $8.857 billion and $36.275 billion, respectively, increases of $95 million and $1.159 billion over the same periods in 2013. Significant changes by major line of business include:

- Private passenger automobile NWP increased $84 million and $542 million in the quarter and year, respectively. The increases in both periods primarily reflect rate and model year increases in Personal Insurance and growth in Liberty International due in part to acquisitions during the year. The year was further impacted by in-force growth in Personal Insurance.
- Homeowners NWP increased $12 million and $664 million in the quarter and year, respectively. The increases in both periods primarily reflect growth of policies in-force, rate and coverage increases in Personal Insurance, along with a reduction in premium ceded under a homeowners quota share treaty. Reflected in the quarter is a return of ceded premium in 2013 that did not recur.
- Specialty insurance NWP increased $58 million and $308 million in the quarter and year, respectively. The increases in both periods primarily reflect new business growth and lower reinsurance ceded.
- Workers compensation - Voluntary NWP decreased $71 million and $350 million in the quarter and year, respectively. The decreases in both periods were due to exposure reductions partially offset by rate increases.
- General liability NWP increased $74 million and $190 million in the quarter and year, respectively. The increases in both periods were driven by new business growth, strong retention and rate increases.
- Global specialty inland marine NWP decreased $68 million and $172 million in the quarter and year, respectively. The decreases in both periods primarily reflect program changes.

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

Consolidated NWP by SBU was as follows:

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2014**	**2013**	**Change**	**2014**	**2013**	**Change**
Personal Insurance	$3,852	$3,665	5.1%	$15,952	$14,934	6.8%
Commercial Insurance	2,172	2,135	1.7	9,032	9,081	(0.5)
Liberty International	1,656	1,685	(1.7)	5,952	5,913	0.7
Global Specialty	1,146	1,131	1.3	5,120	5,016	2.1
Corporate and Other	31	146	(78.8)	219	172	27.3
Total NWP	$8,857	$8,762	1.1%	$36,275	$35,116	3.3%
Foreign exchange effect on NWP change			(7.9)			(4.6)
NWP change excluding foreign exchange[1]			9.0%			7.9%

1 Determined by assuming constant foreign exchange rates between periods.

Major drivers of NWP growth were as follows:

	Three Months Ended December 31,				Twelve Months Ended December 31,			
$ in Millions	**2014**	**2013**	**$ Change**	**Points Attribution**	**2014**	**2013**	**$ Change**	**Points Attribution**
Total NWP[1]	$8,857	$8,762	$95	1.1	$36,275	$35,116	$1,159	3.3
Components of Growth:								
Domestic personal automobile	2,332	2,250	82	0.9	9,619	9,129	490	1.4
-Domestic homeowners	1,320	1,213	107	1.3	5,486	4,969	517	1.5
-Homeowners quota share	(34)	59	(93)	(1.1)	(140)	(278)	138	0.4
Total domestic homeowners	1,286	1,272	14	0.2	5,346	4,691	655	1.9
International local businesses (ex foreign exchange)[2]	2,323	1,685	638	7.3	7,600	5,913	1,687	4.8
Specialty insurance (ex foreign exchange)[2]	737	668	69	0.8	2,953	2,660	293	0.8
Global specialty reinsurance (ex foreign exchange)[2]	138	154	(16)	(0.2)	1,039	1,167	(128)	(0.4)
Global specialty inland marine (ex foreign exchange)[2]	105	171	(66)	(0.8)	440	614	(174)	(0.5)
Domestic workers compensation	451	544	(93)	(1.1)	2,043	2,445	(402)	(1.1)
Domestic individual life	146	138	8	0.1	549	522	27	0.1
Domestic group disability and group life	254	214	40	0.5	1,001	886	115	0.3
Surety	182	190	(8)	(0.1)	764	760	4	-
Foreign exchange[2]	(686)	-	(686)	(7.9)	(1,631)	-	(1,631)	(4.6)
Other commercial lines	1,589	1,476	113	1.4	6,552	6,329	223	0.6
Total NWP	$8,857	$8,762	$95	1.1	$36,275	$35,116	$1,159	3.3

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

Consolidated NWP by geographic distribution channels was as follows:

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2014**	**2013**	**Change**	**2014**	**2013**	**Change**
U.S.	$6,598	$6,521	1.2%	$27,502	$26,558	3.6%
International[1]	2,259	2,241	0.8	8,773	8,558	2.5
Total NWP	$8,857	$8,762	1.1%	$36,275	$35,116	3.3%

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

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

Results of Operations – Consolidated

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2014**	**2013**	**Change**	**2014**	**2013**	**Change**
Net operating income	$651	$474	37.3%	$2,236	$1,925	16.2%
Net realized (losses) gains, net of tax	(89)	41	NM	(300)	(81)	NM
SBU realignment (expense) benefit, net of tax	-	(2)	(100.0)	-	3	(100.0)
Loss on extinguishment of debt, net of tax	(3)	(36)	(91.7)	(22)	(137)	(83.9)
Discontinued operations, net of tax	-	19	(100.0)	(81)	33	NM
Net income attributable to LMHC	$559	$496	12.7%	$1,833	$1,743	5.2%

NM = Not Meaningful

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2014**	**2013**	**Change**	**2014**	**2013**	**Change**
Revenues	$9,948	$9,955	(0.1%)	$39,631	$38,398	3.2%
PTOI before catastrophes, net incurred losses attributable to prior years, Venezuela devaluation and foreign exchange, current accident year re-estimation and LP and LLC income	$881	$676	30.3%	$3,731	$3,063	21.8%
Catastrophes[1]	(155)	(101)	53.5	(1,606)	(1,262)	27.3
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	(4)	(100.0)	(113)	(288)	(60.8)
- All other[2]	97	(165)	NM	158	137	15.3
Venezuela devaluation and foreign exchange	44	20	120.0	162	204	(20.6)
Current accident year re-estimation[3]	-	(67)	(100.0)	-	-	-
PTOI before LP and LLC income	867	359	141.5	2,332	1,854	25.8
LP and LLC income[4]	33	266	(87.6)	638	612	4.2
PTOI	900	625	44.0	2,970	2,466	20.4
Net realized (losses) gains	(97)	65	NM	(289)	11	NM
SBU realignment (expense) benefit	-	(3)	(100.0)	-	5	(100.0)
Loss on extinguishment of debt	(5)	(55)	(90.9)	(34)	(211)	(83.9)
Pre-tax income	798	632	26.3	2,647	2,271	16.6
Income tax expense	244	127	92.1	757	544	39.2
Consolidated net income before discontinued operations	554	505	9.7	1,890	1,727	9.4
Discontinued operations, net of tax	-	19	(100.0)	(81)	33	NM
Consolidated net income	554	524	5.7	1,809	1,760	2.8
Less: Net (loss) income attributable to non-controlling interest	(5)	28	NM	(24)	17	NM
Net income attributable to LMHC	$559	$496	12.7%	$1,833	$1,743	5.2%
Cash flow provided by operations	$1,169	$1,029	13.6%	$1,237	$4,157	(70.2%)

1 Catastrophes include all current accident year catastrophe losses for severe storms in the U.S., U.K. and Ireland floods, Windstorm Ela, Cyclone Oswald, Central European floods, Alberta floods, German hailstorm, Hurricane Odile 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 ($2) million and $8 million for the three and twelve months ended December 31, 2014 and $11 million and $216 million for the same periods in 2013. Net of amortization of deferred gains on retroactive reinsurance of zero and $3 million for the three and twelve months ended December 31, 2014 and $160 million and $339 million for the same periods in 2013. Net of the impact of the NICO Reinsurance Transaction including the original loss of $128 million offset by the subsequent benefit of $85 million.

3 Re-estimation of the current accident year loss reserves for the nine months ended September 30, 2014 and 2013.

4 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, 2014 was $900 million and $2.970 billion, respectively, increases of $275 million and $504 million over the same periods in 2013. The increases in both periods primarily reflect Personal Insurance premium growth, improved underwriting results in Commercial Insurance excluding catastrophes and net incurred losses attributable to prior years and more favorable net incurred losses attributable to prior years and lower valuation losses in other equity method investments, partially offset by higher current accident year catastrophe losses and higher depreciation and impairment related to Liberty Energy. The quarter was also impacted by lower LP and LLC income.

Revenues for the three and twelve months ended December 31, 2014 were $9.948 billion and $39.631 billion, respectively, a decrease of $7 million and an increase of $1.233 billion versus the same periods in 2013. The major components of revenues are net premium earned, net investment income, net realized (losses) gains, and fee and other revenues.

Net premium earned for the three and twelve months ended December 31, 2014 was $9.045 billion and $35.394 billion, respectively, increases of $354 million and $1.345 billion over the same periods in 2013. The increases in both periods primarily reflect the premium earned associated with the changes in NWP previously discussed.

Net investment income for the three and twelve months ended December 31, 2014 was $662 million and $3.167 billion, respectively, a decrease of $218 million and an increase of $41 million versus the same periods in 2013. Both periods were impacted by a reduction in taxable and tax-exempt interest income due to lower investment yields. Additionally, the quarter reflects lower LP and LLC income in the energy sector which was offset in the full year results by an increase in private equity IPO activity and strong financial performance in the underlying investments in the first nine months of 2014. Both periods were also impacted by lower valuation losses in other equity method investments compared to the prior year.

Net realized (losses) gains for the three and twelve months ended December 31, 2014 were ($97) million and ($289) million, respectively, versus $65 million and $11 million in the same periods in 2013. The increase in net losses in both periods relates to higher impairment losses recognized as a result of the change in the Venezuela currency exchange rate used for remeasurement purposes in 2014 compared to the Venezuela government's devaluation of its currency in February 2013 and equity gains recognized in 2013 that did not recur in 2014. The Company also made a decision to sell a number of its private equity investments which resulted in an impairment loss of $68 million for the twelve months ended December 31, 2014.

Fee and other revenues for the three and twelve months ended December 31, 2014 were $338 million and $1.359 billion, respectively, increases of $19 million and $147 million over the same periods in 2013. The increases in both periods primarily reflect higher oil and gas revenues (in Corporate and Other) and fees associated with single premium whole policies (in Commercial Insurance), as well as servicing revenues due to higher third-party administrator fee income and higher commission revenue from service carrier operations (in Commercial Insurance).

Claims, benefits and expenses for the three and twelve months ended December 31, 2014 were $9.145 billion and $36.950 billion, respectively, a decrease of $120 million and an increase of $1.029 billion versus the same periods in 2013. Both periods reflect losses and expenses consistent with business growth and higher current accident year catastrophe losses, partially offset by favorable incurred losses attributable to prior years. Operating costs as a percentage of earned premium increased primarily driven by Liberty Energy activity (including production costs, depreciation, depletion and impairments).

Loss on extinguishment of debt for the three and twelve months ended December 31, 2014 was $5 million and $34 million, respectively, decreases of $50 million and $177 million from the same periods in 2013. Fifty-nine million of debt at an interest rate of 10.75% was repurchased during the year, $1.050 billion of senior debt was issued with an interest rate of 4.85% and $390 million of debt matured.

Income tax expense on continuing operations for the three and twelve months ended December 31, 2014 was $244 million and $757 million, respectively, increases of $117 million and $213 million over the same

periods in 2013. The Company's effective tax rate on continuing operations for the three and twelve months ended December 31, 2014 was 31% and 29% compared to 20% and 24% for the same periods in 2013. The increase in the effective tax rate for the three months ended December 31, 2014 over 2013 is primarily due to greater pre-tax income in the fourth quarter of 2014. The increase in the effective tax rate for the twelve months ended December 31, 2014 over 2013 is primarily due to greater pre-tax income in 2014 and lower foreign tax benefits, partially offset by a $60 million tax benefit related to the settlement of the 2002-2005 IRS exam. The Company's effective tax rate on continuing operations differs from the U.S. Federal statutory rate of 35% principally due to tax exempt investment income, general business credits, settlement of the IRS exam, and lower foreign tax benefits.

Discontinued operations, net of tax (Summit and the Argentina operations) for the three and twelve months ended December 31, 2014 were zero and a loss of $81 million, respectively, versus gains of $19 million and $33 million in the same periods in 2013. The year was primarily impacted by a net loss after tax of $77 million associated with the disposition of the Argentina operations.

Net income attributable to LMHC for the three and twelve months ended December 31, 2014 was $559 million and $1.833 billion, increases of $63 million and $90 million over the same periods in 2013.

Cash flow provided by operations for the three and twelve months ended December 31, 2014 was $1.169 billion and $1.237 billion, respectively, an increase of $140 million and a decrease of $2.920 billion versus the same periods in 2013. The decrease in the year reflects funding of the NICO Reinsurance Transaction.

CONSOLIDATED	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2014[1]	2013[1]	Change (Points)	2014[1]	2013[1]	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%	64.8%	(3.7)	61.8%	64.4%	(2.6)
Underwriting expense ratio	31.8	31.2	0.6	31.0	30.7	0.3
Dividend ratio	-	-	-	-	0.1	(0.1)
Subtotal	92.9	96.0	(3.1)	92.8	95.2	(2.4)
Catastrophes[2]	1.8	1.2	0.6	4.8	3.9	0.9
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	0.1	(0.1)	0.3	0.9	(0.6)
- All other[3]	(1.2)	2.0	(3.2)	(0.4)	(0.3)	(0.1)
Current accident year re-estimation[4]	-	0.8	(0.8)	-	-	-
Total combined ratio[5]	93.5%	100.1%	(6.6)	97.5%	99.7%	(2.2)

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

2 Catastrophes include all current accident year catastrophe losses for severe storms in the U.S., U.K. and Ireland floods, Windstorm Ela, Cyclone Oswald, Central European floods, Alberta floods, German hailstorm, Hurricane Odile 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 and amortization of deferred gains on retroactive reinsurance. Net of the impact of the NICO Reinsurance Transaction.

4 Re-estimation of the current accident year loss reserves for the nine months ended September 30, 2014 and 2013.

5 The combined ratio, expressed as a percentage, is a measure of underwriting profitability. This measure should only be used in conjunction with, and not in lieu of, underwriting income and may not be comparable to other performance measures used by the Company's competitors. The combined ratio is computed as the sum of the following property and casualty ratios: the ratio of claims and claim adjustment expense less managed care income to earned premium; the ratio to earned premium of insurance operating costs plus amortization of deferred policy acquisition costs less fee income (primarily related to the Company's involuntary market servicing carrier operations), and 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 A&E 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, 2014 was 92.9% and 92.8%, improvements of 3.1 points and 2.4 points over the same periods in 2013. Both periods reflect a decrease in the claims and claim adjustment expense ratio primarily due to improvement in current accident year loss ratios in Commercial Insurance.

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, 2014 was 93.5% and 97.5%, improvements of 6.6 points and 2.2 points over the same periods in 2013. Both periods reflect the changes in the combined ratio previously discussed as well as favorable net incurred losses attributable to prior years, partially offset by higher catastrophe losses.

PERSONAL INSURANCE

Overview – Personal Insurance

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

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

Personal Insurance NWP by segment was as follows:

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2014**	**2013**	**Change**	**2014**	**2013**	**Change**
Personal Lines	$2,101	$1,990	5.6%	$8,953	$8,384	6.8%
Safeco	1,751	1,675	4.5	6,999	6,550	6.9
Total NWP	$3,852	$3,665	5.1%	$15,952	$14,934	6.8%

Personal Insurance NWP by line of business was as follows:

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2014**	**2013**	**Change**	**2014**	**2013**	**Change**
Private passenger automobile	$2,331	$2,248	3.7%	$9,614	$9,120	5.4%
Homeowners and other	1,521	1,417	7.3	6,338	5,814	9.0
Total NWP	$3,852	$3,665	5.1%	$15,952	$14,934	6.8%

NWP for the three and twelve months ended December 31, 2014 was $3.852 billion and $15.952 billion, respectively, increases of $187 million and $1.018 billion over the same periods in 2013.

Private passenger automobile NWP for the three and twelve months ended December 31, 2014 was $2.331 billion and $9.614 billion, respectively, increases of $83 million and $494 million over the same periods in 2013. The increases reflect 0.7% growth in auto policies in-force as compared to December 31, 2013 as well as rate and model year increases.

Homeowners and other NWP for the three and twelve months ended December 31, 2014 was $1.521 billion and $6.338 billion, respectively, increases of $104 million and $524 million over the same periods in 2013. The increases reflect 1.7% growth in homeowners policies in-force as compared to December 31, 2013 as well as rate and coverage increases.

Results of Operations – Personal Insurance

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2014**	**2013**	**Change**	**2014**	**2013**	**Change**
Revenues	$4,164	$3,892	7.0%	$16,124	$14,869	8.4%
PTOI before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation	$693	$600	15.5%	$2,698	$2,380	13.4%
Catastrophes[1]	2	5	(60.0)	(977)	(801)	22.0
Net incurred losses attributable to prior years	(6)	(197)	(97.0)	(47)	(248)	(81.0)
Current accident year re-estimation[2]	-	(67)	(100.0)	-	-	-
PTOI	$689	$341	102.1%	$1,674	$1,331	25.8%

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, 2014 and 2013.

PTOI for the three and twelve months ended December 31, 2014 was $689 million and $1.674 billion, respectively, increases of $348 million and $343 million over the same periods 2013. Both periods experienced an increase consistent with growth in earned premium, lower net incurred losses attributable to prior years, and lower expense ratios. PTOI for the year was also impacted by higher current accident year catastrophe losses due to a change in terms for an internal reinsurance treaty which covers severe storm catastrophe losses. The attachment point for the internal reinsurance treaty increased from $825 million in 2013 to $945 million in 2014.

Revenues for the three and twelve months ended December 31, 2014 were $4.164 billion and $16.124 billion, respectively, increases of $272 million and $1.255 billion over the same periods in 2013. 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, 2014 was $3.984 billion and $15.432 billion, respectively, increases of $263 million and $1.240 billion over the same periods in 2013. 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, 2014 was $147 million and $569 million, respectively, increases of $6 million and $9 million over the same periods in 2013. The increases were driven by a higher invested asset base partially offset by a lower investment yield.

Claims, benefits and expenses for the three and twelve months ended December 31, 2014 were $3.475 billion and $14.450 billion, respectively, a decrease of $76 million and an increase of $912 million versus the same periods in 2013. Both periods were impacted by a decrease in incurred losses attributable to prior year and offset by business growth. The year was further impacted by increased catastrophes.

PERSONAL INSURANCE	Three Months Ended December 31, 2014	2013	Change (Points)	Twelve Months Ended December 31, 2014	2013	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	60.4%	61.1%	(0.7)	60.3%	60.7%	(0.4)
Underwriting expense ratio	25.0	25.9	(0.9)	25.2	25.9	(0.7)
Subtotal	85.4	87.0	(1.6)	85.5	86.6	(1.1)
Catastrophes[1]	(0.1)	(0.1)	-	6.3	5.6	0.7
Net incurred losses attributable to prior years	0.2	5.3	(5.1)	0.3	1.7	(1.4)
Current accident year re-estimation[2]	-	1.8	(1.8)	-	-	-
Total combined ratio	85.5%	94.0%	(8.5)	92.1%	93.9%	(1.8)

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, 2014 and 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, 2014 was 85.4% and 85.5%, respectively, decreases of 1.6 points and 1.1 points from the same periods in 2013. The decrease in the claims and claim adjustment expense ratio in both periods primarily reflects favorable loss experience in the homeowners line of business and claim adjustment expenses growing at a slower rate than premiums earned. The decreases in the underwriting expense ratio in both periods were driven by premium earned growing at a faster rate than overall expenses.

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, 2014 was 85.5% and 92.1%, respectively, decreases of 8.5 points and 1.8 points from the same periods in 2013. In addition to the changes in the combined ratio previously discussed, both periods were impacted by a decrease in net incurred losses attributable to prior years. The decrease in the year was partially offset by higher current accident year catastrophe losses due to an increase in the attachment point for an internal reinsurance treaty which covers severe storm catastrophe losses.

COMMERCIAL INSURANCE

Overview – Commercial Insurance

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

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

On June 10, 2014, a new market segment was established in Commercial Insurance called Liberty Mutual Benefits, consolidating the existing Group Benefits, A&H, and Individual Life operations into one unit. All prior periods have been restated to reflect the new structure.

Commercial Insurance NWP by market segment was as follows:

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2014**	**2013**	**Change**	**2014**	**2013**	**Change**
Business Insurance	$1,239	$1,269	(2.4%)	$5,195	$5,315	(2.3%)
National Insurance	499	461	8.2	2,135	2,189	(2.5)
Liberty Mutual Benefits	395	348	13.5	1,538	1,399	9.9
Other Commercial Insurance	39	57	(31.6)	164	178	(7.9)
Total NWP	$2,172	$2,135	1.7%	$9,032	$9,081	(0.5%)

Commercial Insurance NWP by line of business was as follows:

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2014**	**2013**	**Change**	**2014**	**2013**	**Change**
Commercial multiple-peril	$494	$489	1.0%	$2,026	$2,017	0.4%
Workers compensation - Voluntary	413	479	(13.8)	1,896	2,230	(15.0)
Workers compensation - Involuntary	24	47	(48.9)	114	138	(17.4)
Commercial automobile	359	346	3.8	1,452	1,423	2.0
General liability	314	250	25.6	1,226	1,091	12.4
Group disability and life	254	214	18.7	1,000	885	13.0
Individual life	140	134	4.5	532	509	4.5
Other lines	174	176	(1.1)	786	788	(0.3)
Total NWP	$2,172	$2,135	1.7%	$9,032	$9,081	(0.5%)

NWP for the three and twelve months ended December 31, 2014 was $2.172 billion and $9.032 billion, respectively, an increase of $37 million and a decrease of $49 million versus the same periods in 2013. Both periods reflect lower workers compensation premiums due to exposure reductions partially offset by rate increases. The decreases in workers compensation were more than offset in the quarter and partially offset in the year by new business growth, strong retention and rate increases across all other property-casualty lines of business as well as higher group benefits and structured settlement sales in individual life.

Results of Operations – Commercial Insurance

	Three Months Ended December 31,			**Twelve Months Ended December 31,**		
$ in Millions	**2014**	**2013**	**Change**	**2014**	**2013**	**Change**
Revenues	$2,824	$2,822	0.1%	$11,116	11,308	(1.7%)
PTOI before catastrophes, net incurred losses attributable to prior years and LP and LLC (loss) income	$330	$219	50.7%	$1,279	$889	43.9%
Catastrophes[1]	(43)	(68)	(36.8)	(325)	(252)	29.0
Net incurred losses attributable to prior years[2]	26	(8)	NM	76	110	(30.9)
PTOI before LP & LLC (loss) income	313	143	118.9	1,030	747	37.9
LP and LLC (loss) income	(1)	1	NM	10	5	100.0
PTOI	$312	$144	116.7%	$1,040	$752	38.3%

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

2 Net of earned premium attributable to prior years of ($1) million and $16 million for the three and twelve months ended December 31, 2014 and $5 million and ($10) million for the same periods in 2013. Net of amortization of deferred gains on assumed retroactive reinsurance of $1 million and $2 million for the three and twelve months ended December 31, 2014 and zero and $2 million for the same periods in 2013.

NM=Not Meaningful

PTOI for the three and twelve months ended December 31, 2014 was $312 million and $1.040 billion, respectively, increases of $168 million and $288 million over the same periods in 2013. The increases in both periods were driven by decreased current accident year losses across most casualty lines of business and lower property losses partially offset by lower net investment income. The quarter also benefitted from lower current accident year catastrophe losses and favorable development of prior accident year losses versus unfavorable development in the prior year, partially offset by higher variable compensation costs due to timing. Favorability in the year also reflected lower variable compensation costs, partially offset by higher current accident year catastrophe losses, less favorable development of prior accident year losses and higher information technology expenditures.

Revenues for the three and twelve months ended December 31, 2014 were $2.824 billion and $11.116 billion, respectively, an increase of $2 million and a decrease of $192 million versus the same periods in 2013. The major components of revenues are net premium earned, net investment income, net realized gains (losses), and fee and other revenues.

Net premium earned for the three and twelve months ended December 31, 2014 was $2.297 billion and $9.056 billion, respectively, decreases of $10 million and $208 million from the same periods in 2013. The decreases in both periods reflect a decrease in NWP during the last half of 2013 primarily due to a decline in workers compensation premium, as well as the premium earned associated with the changes in NWP previously discussed.

Net investment income for the three and twelve months ended December 31, 2014 was $385 million and $1.534 billion, respectively, decreases of $8 million and $22 million from the same periods in 2013. The decreases in both periods were primarily driven by lower investment yields. The decrease in the year was partially offset by increased LP and LLC income.

Net realized gains (losses) for the three and twelve months ended December 31, 2014 were zero and ($8) million, respectively, versus $6 million and $9 million in the same periods in 2013.

Fee and other revenues for the three and twelve months ended December 31, 2014 were $142 million and $534 million, respectively, increases of $26 million and $55 million over the same periods in 2013. The increases reflect fees associated with single premium whole life policies as well as higher third-party administrator fee income and higher commission revenue from servicing carrier operations. As a servicing carrier, the Company receives fee income for performing certain underwriting, claims and administrative services for all participating involuntary pool members.

Claims, benefits, and expenses for the three and twelve months ended December 31, 2014 were $2.512 billion and $10.084 billion, respectively, decreases of $160 million and $463 million from the same periods in 2013. The decreases in both periods were driven by lower current accident year losses across most casualty lines of business, lower property losses and a more profitable business mix. The quarter also benefited from lower current accident year catastrophe losses and favorable development of prior accident year losses versus unfavorable development in the prior year, partially offset by higher variable compensation costs due to timing. The decreases in both periods were partially offset by increases in growth related expenses in Liberty Mutual Benefits. The year was further impacted by higher current accident year catastrophe losses, less favorable development of prior accident year losses and higher information technology expenditures, partially offset by lower variable compensation costs.

	Three Months Ended December 31,			Twelve Months Ended December 31,		
			Change			Change
COMMERCIAL INSURANCE	**2014**	**2013**	**(Points)**	**2014**	**2013**	**(Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	61.5%	69.2%	(7.7)	63.0%	69.4%	(6.4)
Underwriting expense ratio	34.6	33.3	1.3	33.3	32.7	0.6
Dividend ratio	0.1	(0.1)	0.2	0.1	0.2	(0.1)
Subtotal	96.2	102.4	(6.2)	96.4	102.3	(5.9)
Catastrophes[1]	2.3	3.5	(1.2)	4.4	3.2	1.2
Net incurred losses attributable to prior years[2]	(1.4)	0.4	(1.8)	(1.0)	(1.4)	0.4
Total combined ratio	97.1%	106.3%	(9.2)	99.8%	104.1%	(4.3)

1 Catastrophes include all current accident year catastrophe losses. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.
2 Net of earned premium attributable to prior years.

The Commercial Insurance combined ratio before catastrophes and net incurred losses attributable to prior years for the three and twelve months ended December 31, 2014 was 96.2% and 96.4%, decreases of 6.2 points and 5.9 points from the same periods in 2013. The decreases in both periods were driven by lower claims and claim adjustment expenses due to decreased current accident year losses across most casualty lines of business and lower property losses. The decrease in the quarter was partially offset by higher underwriting expense ratios due to lower earned premium and higher variable compensation costs due to timing. The decrease in the year was partially offset by higher underwriting expense ratio due to lower earned premium and higher information technology expenditures, partially offset by lower variable compensation costs.

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, 2014 was 97.1% and 99.8%, decreases of 9.2 points and 4.3 points from the same periods in 2013. The decrease in the quarter reflects the improvements

previously discussed as well as lower current accident year catastrophe losses and favorable development of prior accident year losses versus unfavorable development in the prior year. The decrease in the year reflects the improvements previously discussed, partially offset by higher current year catastrophe losses and less favorable development of prior accident year losses.

LIBERTY INTERNATIONAL

Overview – Liberty International

Liberty International sells property, casualty, health and life insurance products and services to individuals and businesses in four market segments.

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

Effective February 21, 2014, the Company sold the Argentina operations resulting in a net loss of $77 million. The results of the Argentina operations are presented as Discontinued Operations on the accompanying Consolidated Statements of Income and are not included within Liberty International financial results. All prior periods have been restated to reflect the sale.

Liberty International NWP by market segment was as follows:

	Three Months Ended December 31,				Twelve Months Ended December 31,			
$ in Millions	**2014**	**2013**	**Change**	**Change ex. foreign exchange[1]**	**2014**	**2013**	**Change**	**Change ex. foreign exchange[1]**
Latin America and Iberia	$1,352	$1,406	(3.8%)	42.5%	$4,766	$4,859	(1.9%)	31.5%
Emerging Europe	121	120	0.8	8.0	509	458	11.1	10.8
Asia	121	93	30.1	32.8	447	383	16.7	19.9
Large Emerging Markets	62	66	(6.1)	3.8	230	213	8.0	14.6
Total NWP	$1,656	$1,685	(1.7%)	37.9%	$5,952	$5,913	0.7%	28.5%

1 Determined by assuming constant foreign exchange rates between periods.

Liberty International NWP by line of business was as follows:

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2014**	**2013**	**Change**	**2014**	**2013**	**Change**
Private passenger automobile	$1,020	$1,018	0.2%	$3,588	$3,536	1.5%
Commercial automobile	130	120	8.3	458	429	6.8
Homeowners	64	66	(3.0)	253	244	3.7
Life and health	219	251	(12.7)	859	908	(5.4)
Other [1]	223	230	(3.0)	794	796	(0.3)
Total NWP	$1,656	$1,685	(1.7%)	$5,952	$5,913	0.7%

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, 2014 was $1.656 billion and $5.952 billion, respectively, a decrease of $29 million and an increase of $39 million versus the same periods in 2013. Excluding the negative impact of foreign exchange driven by the Venezuelan devaluation and strengthening of the U.S. dollar, the changes in both periods reflect local currency growth across all segments including Latin America and Iberia due to increases in sum insured values in the auto and health

lines of business resulting from inflation in Venezuela and an increase in private passenger auto business in Brazil, Emerging Europe driven by the Hughes Insurance Agreement in Ireland, Asia driven by the acquisition of Malaysia in the third quarter, and expansion in Large Emerging Markets. Further discussion on the Hughes Insurance Agreement and the Malaysia acquisition can be found in the Consolidated Results of Operations section.

Results of Operations – Liberty International

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2014**	**2013**	**Change**	**2014**	**2013**	**Change**
Revenues	$1,541	$1,624	(5.1%)	$6,124	$6,054	1.2%
PTOI before catastrophes, net incurred losses attributable to prior years and Venezuela devaluation and foreign exchange	$19	$6	NM	$108	$132	(18.2%)
Catastrophes[1]	-	-	-	(9)	-	NM
Net incurred losses attributable to prior years	78	34	129.4	132	64	106.3
Venezuela devaluation and foreign exchange	44	20	120.0	162	207	(21.7)
PTOI	$141	$60	135.0%	$393	$403	(2.5%)

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

PTOI for the three and twelve months ended December 31, 2014 was $141 million and $393 million, respectively, an increase of $81 million and a decrease of $10 million versus the same periods in 2013. Both periods reflect favorable incurred losses attributable to prior years primarily driven by the most recent actuarial reserve review in Venezuela and favorable private passenger auto severity in Brazil due to enhanced fraud controls and cost containment efforts, offset by unfavorable reserve development in Ireland as a result of a change in discount rate used for future cost of care reserves and the negative impact of foreign exchange driven by Venezuela. The year was further impacted by catastrophe losses due to the U.K. and Ireland floods which occurred in the first quarter of 2014.

Revenues for the three and twelve months ended December 31, 2014 were $1.541 billion and $6.124 billion, respectively, a decrease of $83 million and an increase of $70 million versus the same periods in 2013. The primary components of revenues are net premium earned, net investment income and net realized investment (losses) gains.

Net premium earned for the three and twelve months ended December 31, 2014 was $1.455 billion and $5.882 billion, respectively, a decrease of $16 million and an increase of $183 million versus the same periods in 2013. The change in both periods reflects the premium earned associated with the local currency growth in NWP previously discussed, offset by foreign exchange driven by Venezuela.

Net investment income for the three and twelve months ended December 31, 2014 was $94 million and $373 million, respectively, decreases of $12 million and $45 million from the same periods in 2013. The decreases in both periods reflect higher cash balances and limited investment options in Venezuela reducing overall yields relative to prior periods.

Net realized investment (losses) gains for the three and twelve months ended December 31, 2014 were ($59) million and ($306) million, versus $1 million and ($228) million in the same periods in 2013. The change in both periods was primarily driven by impairments of Venezuelan BsF denominated investments.

Claims, benefits and expenses for the three and twelve months ended December 31, 2014 were $1.459 billion and $6.037 billion, respectively, a decrease of $104 million and an increase of $158 million versus

the same periods in 2013. Both periods reflect foreign exchange losses primarily the result of the Venezuela devaluation and foreign exchange and the acquisition of Malaysia. Excluding this impact, both periods reflect favorable incurred losses attributable to prior years primarily driven by the most recent actuarial reserve review in Venezuela and private passenger auto severity in Brazil, partially offset by higher costs consistent with business growth in non-mature operations and unfavorable reserve development in Ireland as a result of a change in discount rate used for future cost of care reserves. The increase in the year is further impacted by higher catastrophe losses due to the U.K. and Ireland floods.

	Three Months Ended December 31,			Twelve Months Ended December 31,		
LIBERTY INTERNATIONAL	**2014**[1]	**2013**[1]	**Change (Points)**	**2014**[1]	**2013**[1]	**Change (Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	65.7%	66.0%	(0.3)	66.0%	66.1%	(0.1)
Underwriting expense ratio	39.7	40.1	(0.4)	38.6	38.5	0.1
Subtotal	105.4	106.1	(0.7)	104.6	104.6	-
Catastrophes[2]	-	-	-	0.2	-	0.2
Net incurred losses attributable to prior years	(5.6)	(2.3)	(3.3)	(2.4)	(1.2)	(1.2)
Total combined ratio	99.8%	103.8%	(4.0)	102.4%	103.4%	(1.0)

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

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

The Liberty International combined ratio before catastrophes and net incurred losses attributable to prior years for the three and twelve months ended December 31, 2014 was 105.4% and 104.6%, respectively, a decrease of 0.7 points and no change versus the same periods in 2013. The decrease in the quarter includes a 0.3 point decrease in the claims and claim adjustment expense ratio primarily due to favorable private auto frequencies in Venezuela and a 0.4 point decrease in the underwriting expense ratio primarily due to a decrease in variable commission expenses in Spain.

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, 2014 was 99.8% and 102.4%, respectively, decreases of 4.0 points and 1.0 point from the same periods in 2013. The total combined ratios in both periods reflect the changes in the combined ratio previously discussed, as well as favorable incurred losses attributable to prior years, primarily in Venezuela, partially offset by unfavorable reserve development in Ireland as a result of a change in discount rate used for future cost of care reserves. The total combined ratio for the twelve months ended December 31, 2014 also includes catastrophe losses related to the U.K. and Ireland floods.

GLOBAL SPECIALTY

Overview – Global Specialty

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

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

Effective in the second quarter of 2014, the A&H business was moved from Global Specialty to Commercial Insurance. All Global Specialty A&H activity from prior periods has been restated to reflect the new structure.

Global Specialty NWP by market segment was as follows:

	Three Months Ended December 31,			**Twelve Months Ended December 31,**		
$ in Millions	**2014**	**2013**	**Change**	**2014**	**2013**	**Change**
LSM	$552	$505	9.3%	$2,715	$2,622	3.5%
LIU	385	426	(9.6)	1,533	1,586	(3.3)
LM Surety	178	185	(3.8)	748	743	0.7
Other	31	15	106.7	124	65	90.8
Total NWP	$1,146	$1,131	1.3%	$5,120	$5,016	2.1%
Foreign exchange effect on NWP change			(1.4)			0.5
NWP change excluding foreign exchange[1]			2.7%			1.6%

1 Determined by assuming constant foreign exchange rates between periods.

Global Specialty's major product lines are as follows:

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

Global Specialty NWP by line of business was as follows:

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2014**	**2013**	**Change**	**2014**	**2013**	**Change**
Specialty insurance	$696	$602	15.6%	$2,752	$2,418	13.8%
Reinsurance	136	154	(11.7)	1,045	1,167	(10.5)
Surety	180	189	(4.8)	757	752	0.7
Inland marine	103	171	(39.8)	442	614	(28.0)
Other	31	15	106.7	124	65	90.8
Total NWP	$1,146	$1,131	1.3%	$5,120	$5,016	2.1%

NWP for the three and twelve months ended December 31, 2014 was $1.146 billion and $5.120 billion, respectively, increases of $15 million and $104 million over the same periods in 2013. Both periods were impacted by growth in specialty insurance primarily driven by Syndicate 4472 due to new business, LMIE and LIU U.S. due to reinsurance program changes and new business partially offset by a decrease in reinsurance due to a competitive market and inland marine due to program changes.

Results of Operations – Global Specialty

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2014**	**2013**	**Change**	**2014**	**2013**	**Change**
Revenues	$1,339	$1,319	1.5%	$5,183	$5,127	1.1%
PTOI before catastrophes and net incurred losses attributable to prior years	$167	$148	12.8%	$660	$682	(3.2%)
Catastrophes [1]	(20)	(7)	185.7	(51)	(102)	(50.0)
Net incurred losses attributable to prior years [2]	(33)	(44)	(25.0)	(72)	(72)	-
PTOI	$114	$97	17.5%	$537	$508	5.7%

1 Catastrophes include all current accident year catastrophe losses for severe storms in the U.S., U.K. and Ireland floods, Windstorm Ela, Cyclone Oswald, Central European floods, Alberta floods, German hailstorm, Hurricane Odile 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 $1 million and $10 million for the three and twelve months ended December 31, 2014 and $6 million and $27 million for the same periods in 2013.

PTOI for the three and twelve months ended December 31, 2014 was $114 million and $537 million, respectively, increases of $17 million and $29 million over the same periods in 2013. The increase in the quarter is primarily driven by improved current year loss activity, lower losses attributable to prior years and favorable net investment income, partially offset with unfavorable catastrophe losses and underwriting expenses. The increase in the year reflects lower catastrophe losses and favorable net investment income, partially offset with higher underwriting expenses.

Revenues for the three and twelve months ended December 31, 2014 were $1.339 billion and $5.183 billion, respectively, increases of $20 million and $56 million over the same periods in 2013. 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, 2014 was $1.250 billion and $4.835 billion, respectively, increases of $15 million and $52 million over the same periods in 2013. The increases in both periods reflect the previously mentioned growth in NWP.

Net investment income for the three and twelve months ended December 31, 2014 was $86 million and $336 million, respectively, increases of $5 million and $24 million over the same periods in 2013. The increases in both periods reflect a higher invested asset base partially offset by lower yields.

Claims, benefits and expenses for the three and twelve months ended December 31, 2014 were $1.226 billion and $4.646 billion, respectively, increases of $5 million and $51 million over the same periods in 2013. The increases in both periods reflect business growth, increased retention and higher underwriting expenses partially offset by favorable current year loss activity. The year was further impacted by favorable catastrophe losses.

	Three Months Ended December 31,			Twelve Months Ended December 31,		
GLOBAL SPECIALTY	**2014**	**2013**	**Change (Points)**	**2014**	**2013**	**Change (Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	57.8%	64.9%	(7.1)	59.1%	62.5%	(3.4)
Underwriting expense ratio	34.9	29.4	5.5	33.3	29.0	4.3
Dividend ratio	0.2	0.1	0.1	0.2	0.2	-
Subtotal	92.9	94.4	(1.5)	92.6	91.7	0.9
Catastrophes [1]	1.6	0.6	1.0	1.0	2.1	(1.1)
Net incurred losses attributable to prior years[2]	2.7	3.6	(0.9)	1.5	1.6	(0.1)
Total combined ratio	97.2%	98.6%	(1.4)	95.1%	95.4%	(0.3)

1 Catastrophes include all current accident year catastrophe losses for severe storms in the U.S., U.K. and Ireland floods, Windstorm Ela, Cyclone Oswald, Central European floods, Alberta floods, German hailstorm, Hurricane Odile 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, 2014 was 92.9% and 92.6%, respectively, a decrease of 1.5 points and an increase of 0.9 points versus the same periods in 2013. The claims and claim adjustment expense and underwriting expense ratios in the inland marine line of business reflect favorable current year loss activity partially offset by higher underwriting expenses due to a change of terms and conditions on a program as well as other program changes. Both periods were further impacted by favorable Surety current year loss activity partially offset by Syndicate 4472, LMIE and LIU U.S. higher current year loss activity as well as unfavorable underwriting expense due to LSM real estate cost associated with the move to a new building and higher LSM commissions driven by 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, 2014 was 97.2% and 95.1%, respectively, decreases of 1.4 points and 0.3 points from the same periods in 2013. The decrease in the quarter reflects the change to the combined ratio previously discussed and favorable prior year development in Syndicate 4472 as well as lower net incurred losses attributable to prior years primarily in LIU U.S, partially offset by unfavorable net incurred losses attributable to prior years in Surety. The decrease in the year is primarily driven by favorable catastrophe losses, partially offset with the change to the combined ratio previously discussed.

CORPORATE AND OTHER

Overview – Corporate and Other

Corporate and Other includes the following significant items:

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

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

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

- Interest expense on the Company's outstanding debt.

- Certain risks of its SBUs that the Company reinsures as part of its risk management program, and risks on Personal Insurance homeowners business covered by 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, except for Commercial Insurance.

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

- 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	**2014**	**2013**	**Change**	**2014**	**2013**	**Change**
Reinsurance, net	$15	$124	(87.9%)	$178	$82	117.1%
Workers compensation - Voluntary[1]	19	22	(13.6)	67	89	(24.7)
Workers compensation - Involuntary	(3)	-	NM	(29)	-	NM
Other	-	-	-	3	1	NM
Total NWP	$31	$146	(78.8%)	$219	$172	27.3%

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

NWP for the three and twelve months ended December 31, 2014 was $31 million and $219 million, respectively, a decrease of $115 million and an increase of $47 million versus the same periods in 2013. Both periods were impacted by a change in terms related to a homeowners quota share treaty covering Personal Insurance homeowners business including a return of premium in the fourth quarter of 2013. The year was partially offset by a decrease in premium related to certain pre-2014 involuntary workers compensation business assumed from Commercial Insurance and 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	**2014**	**2013**	**Change**	**2014**	**2013**	**Change**
Revenues	$80	$298	(73.2%)	$1,084	$1,040	4.2%
Pre-tax operating loss before catastrophes, net incurred losses attributable to prior years, Venezuela devaluation, and LP and LLC income	(328)	(297)	10.4%	(1,014)	(1,020)	(0.6%)
Catastrophes[1]	(94)	(31)	NM	(244)	(107)	128.0
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	(4)	(100.0)	(113)	(288)	(60.8)
- All other[2]	32	50	(36.0)	69	283	(75.6)
Venezuela devaluation	-	-	-	-	(3)	(100.0)
Pre-tax operating loss before LP and LLC income	(390)	(282)	38.3	(1,302)	(1,135)	14.7
LP and LLC income[3]	34	265	(87.2)	628	607	3.5
Pre-tax operating loss	($356)	($17)	NM	($674)	($528)	27.7%

1 Catastrophes include all current accident year catastrophe losses for severe storms in the U.S., U.K. and Ireland floods, Windstorm Ela, Cyclone Oswald, Central European floods, Alberta floods, German hailstorm, Hurricane Odile and Typhoon Fitow. 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 ($2) million and ($18) million for the three and twelve months ended December 31, 2014 and zero and $200 million for the same periods in 2013. Net of amortization of deferred gains on retroactive reinsurance of zero and $2 million for the three and twelve months ended December 31, 2014 and $160 million and $337 million for the same periods in 2013.
3 LP and LLC income is included in net investment income in the accompanying Consolidated Statements of Income.
NM = Not Meaningful

Pre-tax operating loss for the three and twelve months ended December 31, 2014 were $356 million and $674 million, respectively, increases of $339 million and $146 million over the same periods in 2013. The increases were driven by higher depreciation and impairments related to Liberty Energy and higher catastrophe losses partially offset by lower valuation losses in other equity method investments, reduced reinsurance costs due to a change in terms and lower employee pension expenses. The quarter was further impacted by lower valuation changes in LP and LLC investments. The year was further impacted by

higher unfavorable net incurred losses attributable to prior years (primarily due to the commutation of certain workers compensation retroactive reinsurance agreements in 2013 that did not recur partially offset by lower unfavorable A&E loss development and less certain pre-2014 workers compensation business assumed from Commercial Insurance).

Revenues for the three and twelve months ended December 31, 2014 were $80 million and $1.084 billion, respectively, a decrease of $218 million and an increase of $44 million versus the same periods in 2013. The major components of revenues are net premium earned, net investment (loss) income, net realized (losses) gains, and fee and other revenues.

Net premium earned for the three and twelve months ended December 31, 2014 were $59 million and $189 million, respectively, increases of $102 million and $78 million over the same periods in 2013. The increases in both periods were driven by a reduction in ceded premium due to a change in terms on the homeowners quota share treaty covering Personal Insurance homeowners effective December 31, 2013. The increase in the year is partially offset by lower earned but not reported development on certain pre-2014 workers compensation business assumed from Commercial Insurance.

Net investment (loss) income for the three and twelve months ended December 31, 2014 was ($50) million and $355 million, respectively, versus $159 million and $280 million in the same periods in 2013. The quarter-to-date decrease is largely a result of the non-recurrence of prior year LP and LLC income, primarily in the energy sector, which was offset in the full year results by an increase in private equity IPO activity and strong financial performance in the underlying investments in the first nine months of 2014. Both periods are impacted by lower valuation losses in other equity method investments.

Net realized (losses) gains for the three and twelve months ended December 31, 2014 were ($37) million and $25 million, respectively, versus $57 million and $206 million in the same periods in 2013. Both periods were impacted by gains on sales of common stock in 2013 that did not recur. The year was further impacted by impairment losses on LP investments.

Fee and other revenues for the three and twelve months ended December 31, 2014 were $108 million and $515 million, respectively, a decrease of $17 million and an increase of $72 million versus the same periods in 2013. The quarter-to-date decrease is driven by lower oil and gas revenues as a result of lower prices. The increase in the year reflects overall higher oil and gas revenues due to increased production.

Claims, benefits and expenses for the three and twelve months ended December 31, 2014 were $473 million and $1.733 billion, respectively, increases of $215 million and $371 million over the same periods in 2013. The increases in both periods were driven by a lower ceding percentage on the homeowners quota share treaty due to a change in terms, higher depreciation and impairments related to Liberty Energy and higher catastrophe losses partially offset by lower employee pension expenses. The increase in the year was further impacted by higher unfavorable net incurred losses attributable to prior years (primarily due to the commutation of certain workers compensation retroactive reinsurance agreements in 2013 that did not recur partially offset by lower unfavorable A&E loss development and less certain pre-2014 workers compensation business assumed from Commercial Insurance).

INVESTMENTS

General

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

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

Invested Assets (including cash and cash equivalents)

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

$ in Millions	**As of December 31, 2014**		**As of December 31, 2013**	
Invested Assets by Type	**Carrying Value**	**% of Total**	**Carrying Value**	**% of Total**
Fixed maturities, available for sale, at fair value	$64,081	80.3%	$64,256	81.4%
Equity securities, available for sale, at fair value	3,145	3.9	2,952	3.7
LPs and LLCs	4,513	5.7	4,091	5.2
Commercial mortgage loans	1,808	2.3	1,583	2.0
Short-term investments	626	0.8	393	0.5
Other investments	900	1.1	829	1.1
Cash and cash equivalents	4,716	5.9	4,778	6.1
Total invested assets	$79,789	100.0%	$78,882	100.0%

Total invested assets as of December 31, 2014 were $79.789 billion, an increase of $907 million or 1.1% over December 31, 2013. The increase reflects new investments and strong market performance in LPs and LLCs, new commercial mortgage loan investments, and an increase in fixed maturity unrealized gains related to lower treasury yields and spread tightening. This was partially offset by sales of fixed maturities for funding of the NICO Reinsurance Transaction and the impact of the change in the Venezuela currency exchange rate used for remeasurement purposes.

Fixed maturities as of December 31, 2014 were $64.081 billion, a decrease of $175 million or 0.3% from December 31, 2013. The decrease reflects sales of fixed maturities for funding of the NICO Reinsurance Transaction and the change in the Venezuela currency exchange rate used for remeasurement purposes, partially offset by an increase in unrealized gains related to lower treasury yields and spread tightening. As of December 31, 2014, included in fixed maturities are commitments to purchase various residential mortgage-backed securities at a cost and fair value of $193 million, and various corporate and municipal securities at a cost and fair value of $27 million.

Equity securities available for sale as of December 31, 2014 were $3.145 billion ($2.790 billion common stock and $355 million preferred stock) versus $2.952 billion as of December 31, 2013 ($2.625 billion common stock and $327 million preferred stock), an increase of $193 million or 6.5% over December 31, 2013. Of the $2.790 billion of common stock at December 31, 2014, $437 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 strong equity market performance.

Investments in LPs and LLCs as of December 31, 2014 were $4.513 billion, an increase of $422 million or 10.3% over December 31, 2013. These investments consist of traditional private equity partnerships of $2.011 billion, natural resources partnerships of $827 million ($590 million related to energy investments), real estate partnerships of $606 million and other partnerships of $1.069 billion. 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.

Commercial mortgage loans as of December 31, 2014 were $1.808 billion (net of $14 million of loan loss reserves or 0.76% of the outstanding loan portfolio), an increase of $225 million or 14.2% over December 31, 2013. The increase primarily reflects $365 million in funding, partially offset by $142 million in principal reductions. The entire commercial loan portfolio is U.S. based. As of December 31, 2014, the average total loan size was $2 million and the average loan participation size was less than $1 million. The number of loans in the portfolio increased from 4,211 at December 31, 2013 to 4,509 at December 31, 2014. Approximately 85% of the loans are full or partial recourse to borrowers.

Short-term investments as of December 31, 2014 were $626 million, an increase of $233 million or 59.3% over December 31, 2013. The increase reflects additional investments in short-term holdings across the Company's International operations.

Cash and cash equivalents as of December 31, 2014 were $4.716 billion, a decrease of $62 million or 1.3% from December 31, 2013. The decrease was primarily related to net cash used in investing activities, and the impact of the change in the Venezuela currency exchange rate used for remeasurement purposes partially offset by cash flows from operating activities.

As of December 31, 2014, the Company had unfunded commitments in traditional private equity partnerships, natural resources, real estate, and other of $1.355 billion, $2.736 billion ($2.708 billion in energy investments), $837 million, and $799 million, respectively.

Regarding fair value measurements, as of December 31, 2014, excluding separate accounts and other assets, the Company reflected $5.121 billion (7.5%) 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, 2014 the Company reported $61.303 billion (89.6%) as level 2, consisting primarily of various fixed maturity securities. Finally, the Company reported $1.990 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, 2014, no single issuer, excluding U.S. Treasuries, agency securities and mortgage-backed securities, accounted for more than 1.2% of invested assets. As of December 31, 2014, investments in the energy sector accounted for $3.235 billion or 4.1% of total invested assets. These investments consist of investment grade bonds of $2.115 billion, bonds that were rated below investment grade of $280 million, publicly traded equity securities of $177 million, natural resources partnerships of $590 million and other investments of $73 million. In addition, the Company has direct investments in oil and gas wells of $1.636 billion which are included in other assets on the Consolidated Balance Sheets. Unfunded energy investment commitments as of December 31, 2014 were $2.708 billion, of this, $679 million and $2.029 billion are related to natural resources partnerships and direct investments in oil and gas wells, respectively.

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

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

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

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

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

$ in Millions	**As of December 31, 2014**							
Mortgage & Asset-Backed Fixed Maturities by Credit Quality[1]	**AAA**	**AA**	**A**	**BBB**	**BB**	**B or Lower**	**Total**	**% of Total**
SBA loans	$2,245	$-	$-	$-	$-	$-	$2,245	17.8%
GNMA residential mortgage	3,556	5	-	-	-	-	3,561	28.3
FNMA residential mortgage	2,335	-	-	-	-	-	2,335	18.5
FHLMC residential mortgage	1,959	-	-	-	-	-	1,959	15.5
Prime residential mortgage	11	-	2	2	10	134	159	1.3
Alt-A residential mortgage	-	10	-	-	7	113	130	1.0
Sub-prime residential mortgage	10	-	2	-	4	18	34	0.3
Commercial MBS	1,423	14	26	47	-	-	1,510	12.0
Non-mortgage ABS	418	-	55	188	3	8	672	5.3
Total	$11,957	$29	$85	$237	$24	$273	$12,605	100.0%
% of Total	94.9%	0.2%	0.7%	1.9%	0.2%	2.1%	100.0%	

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

Approximately 80% of the Company's mortgage and asset-backed fixed maturity portfolio is explicitly backed by the U.S. government (SBA and GNMA) or by government-sponsored entities (FNMA and FHLMC). Approximately 95% of the holdings are rated AAA. The commercial mortgage-backed securities portfolio is well diversified and of high quality with approximately 94% rated AAA.

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

$ in Millions	**As of December 31, 2014**		**As of December 31, 2013**	
Fixed Maturities by Credit Quality[1]	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
AAA	$20,988	32.8%	$21,122	32.9%
AA+, AA, AA-	10,983	17.1	11,337	17.6
A+, A, A-	15,660	24.4	14,611	22.7
BBB+, BBB, BBB-	11,919	18.6	12,122	18.9
Total investment grade	59,550	92.9	59,192	92.1
BB+, BB, BB-	1,478	2.3	1,566	2.4
B+, B, B-	1,605	2.5	2,809	4.4
CCC or lower	1,448	2.3	689	1.1
Total below-investment grade	4,531	7.1	5,064	7.9
Total fixed maturities	$64,081	100.0%	$64,256	100.0%

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

The Company's allocation to investment grade (fixed maturities with an average credit rating of BBB- or higher) securities was approximately 93% at December 31, 2014, slightly higher than December 31, 2013. The Company's allocation to below-investment grade (fixed maturities with an average credit rating below BBB-) securities was approximately 7% at December 31, 2014, slightly lower than December 31, 2013. The decline in below-investment grade fair value was primarily as a result of the change in the Venezuela currency exchange rate used for remeasurement purposes in January 2014. The increase of CCC or lower at

December 31, 2014 as a percentage of total fixed maturities is primarily driven by the downgrade of Venezuela's sovereign debt credit rating from B to CCC. The Company's holdings of below investment grade securities primarily consist of an actively managed diversified portfolio of high yield securities and leveraged loans within the domestic insurance portfolios and investments in emerging market sovereign and corporate debt primarily in support of the Company's international insurance operations. Overall, the average credit quality rating stands at A+ as of December 31, 2014.

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

$ in Millions	As of December 31, 2014		As of December 31, 2013	
Fixed Maturities by Maturity Date	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
One year or less	$3,632	5.7%	$3,521	5.5%
Over one year through five years	17,455	27.2	19,107	29.7
Over five years through ten years	17,539	27.4	17,331	27.0
Over ten years	12,850	20.0	11,700	18.2
MBS and ABS	12,605	19.7	12,597	19.6
Total fixed maturities	$64,081	100.0%	$64,256	100.0%

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

Net Investment Income

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

$ in Millions	Three Months Ended December 31,		Twelve Months Ended December 31,	
Net Investment Income	**2014**	**2013[1]**	**2014[2]**	**2013[2]**
Taxable interest income	$553	$577	$2,207	$2,288
Tax-exempt interest income	87	108	399	443
Dividends	20	16	74	65
LP and LLC income	33	266	638	612
Commercial mortgage loans	24	24	93	91
Other investment loss	(11)	(60)	(77)	(171)
Gross investment income	706	931	3,334	3,328
Investment expenses[3]	(44)	(36)	(153)	(142)
Net investment income	$662	$895	$3,181	$3,186

[1]The above table contains net investment income attributable to discontinued operations of $15 million for the three months ended December 31, 2013.
[2]The above table contains net investment income attributable to discontinued operations of $14 million and $60 million for the twelve months ended December 31, 2014 and 2013, respectively.
[3]Fees paid to external managers are included within the components of gross investment income.

Net investment income for the three and twelve months ended December 31, 2014 was $662 million and $3.181 billion, respectively, decreases of $233 million and $5 million from the same periods in 2013. The decreases in both periods were mainly due to a reduction in taxable and tax-exempt interest income due to lower investment yields. Additionally, the quarter reflects lower LP and LLC income in the energy sector

which was offset in the full year results by an increase in private equity IPO activity and strong financial performance in the underlying investments in the first nine months of 2014. The decreases in both periods were partially offset by lower valuation losses in other equity method investments compared to the prior year.

Net Realized Gains (Losses)

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

$ in Millions Net Realized Gains (Losses)	**Sales & Dispositions**	**Impairments**	**Change in Derivatives Value**	**Total**
Three Months Ended December 31, 2014:				
Fixed maturities	$23	($90)	$-	($67)
Equities	-	(3)	-	(3)
Other	(15)	(12)	-	(27)
Total	$8	($105)	$-	($97)
Three Months Ended December 31, 2013:				
Fixed maturities	$36	($48)	$-	($12)
Equities	102	(2)	-	100
Other	(16)	(7)	-	(23)
Total	$122	($57)	-	$65

$ in Millions Net Realized Gains (Losses)	**Sales & Dispositions**	**Impairments**	**Change in Derivatives Value**	**Total**
Twelve Months Ended December 31, 2014:				
Fixed maturities	$89	($348)	$-	($259)
Equities	70	(12)	-	58
Other	(9)	(79)	-	(88)
Total	$150	($439)	$-	($289)
Twelve Months Ended December 31, 2013:				
Fixed maturities	$95	($299)	$-	($204)
Equities	287	(10)	-	277
Other	(29)	(25)	(8)	(62)
Total	$353	($334)	($8)	$11

$ in Millions	Three Months Ended December 31,		Twelve Months Ended December 31,	
Components of Net Realized Gains (Losses)	**2014**	**2013**	**2014**	**2013**
Fixed maturities:				
Gross realized gains	$30	$50	$157	$187
Gross realized losses	(97)	(62)	(416)	(391)
Equities:				
Gross realized gains	43	111	138	329
Gross realized losses	(46)	(11)	(80)	(52)
Other:				
Gross realized gains	3	2	50	41
Gross realized losses	(30)	(25)	(138)	(103)
Total net realized (losses) gains	($97)	$65	($289)	$11

Net realized (losses) gains for the three and twelve months ended December 31, 2014 were ($97) million and ($289) million, respectively, versus $65 million and $11 million in the same periods in 2013. The increase in net losses in both periods relates to higher impairment losses recognized as a result of the change in the Venezuela currency exchange rate used for remeasurement purposes in 2014 compared to the Venezuela government's devaluation of its currency in February 2013 and equity gains recognized in 2013 that did not recur in 2014. The Company also made a decision to sell a number of its private equity investments which resulted in an impairment loss of $68 million for the twelve months ended December 31, 2014.

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

$ in Millions	**Less Than 12 Months**		**12 Months or Longer**	
Unrealized Losses & Fair Value by Security Type	**Unrealized Losses**	**Fair Value of Investments with Unrealized Losses**	**Unrealized Losses**	**Fair Value of Investments with Unrealized Losses**
U.S. Government and agency securities	($1)	$259	($9)	$558
Residential MBS	(4)	755	(20)	1,229
Commercial MBS	(1)	148	(8)	368
Other MBS and ABS	(2)	253	(12)	821
U.S. state and municipal	(1)	129	(17)	673
Corporate and other	(90)	3,395	(56)	1,765
Foreign government securities	(10)	791	(20)	725
Total fixed maturities	(109)	5,730	(142)	6,139
Common stock	(47)	443	(11)	52
Preferred stock	-	4	(58)	251
Total equity securities	(47)	447	(69)	303
Total securities available for sale	($156)	$6,177	($211)	$6,442

Unrealized losses decreased from $1.019 billion as of December 31, 2013 to $367 million as of December 31, 2014 primarily related to a decrease in treasury yields and spread tightening. Unrealized losses less than 12 months decreased from $755 million at December 31, 2013 to $156 million as of December 31, 2014. Unrealized losses 12 months or longer decreased from $264 million as of December 31, 2013 to $211 million as of December 31, 2014. Of the $11 million unrealized losses 12 months or longer on common stock, $2 million relates to securities associated with non-guaranteed unit linked products where the policyholder bears the investment risk. As of December 31, 2014, there were 1,061 securities that were in an unrealized loss position for 12 months or longer. The Company monitors the difference between the amortized cost and estimated fair value of debt securities to ascertain whether declines in value are temporary in nature. The Company currently does not have the intent to sell these securities and has determined it is not more likely than not that it would be required to sell these fixed maturity securities before they recover their fair value.

If the Company believes a decline in the value (including foreign exchange rate changes) of a particular investment is temporary, the decline is recorded as an unrealized loss in policyholders' equity. If the decline is believed to be other-than-temporary, and the Company believes that it will not be able to collect all cash flows due on its fixed maturity securities, then the carrying value of the investment is written down to the expected cash flow amount and a realized loss is recorded as a credit impairment. A non-credit impairment loss is recognized in other comprehensive income, net of applicable taxes, as the difference between expected cash flows and fair value. For the three and twelve months ended December 31, 2014, the Company recorded $90 million and $348 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 changes in the Venezuela currency exchange rate used for remeasurement purposes as other-than-temporary impairments. The Company has concluded that the remaining gross unrealized losses of fixed maturity securities as of December 31, 2014 are temporary.

For equity securities, if the decline is believed to be other-than-temporary, the carrying value of the investment is written down to fair value and a realized loss is recorded. The gross unrealized losses recorded on equity securities at December 31, 2014 resulted primarily from decreases in quoted fair values from the dates that certain investment securities were acquired as opposed to fundamental changes in the issuer's financial performance and near-term financial prospects. For the three and twelve months ended December 31, 2014, the Company recorded $3 million and $12 million, respectively, in impairment losses on equity securities. The Company has concluded that the gross unrealized losses of equity securities as of December 31, 2014 are temporary.

LIQUIDITY AND CAPITAL RESOURCES

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

Net cash flows are generally invested in marketable securities while keeping a certain amount in cash and short-term investments to meet unpredictable cash obligations. The Company monitors the duration of these investments, and purchases and sales are executed with the objective of having adequate cash available to satisfy its maturing liabilities. As the Company's investment strategy focuses on overall asset and liability durations, and not specific cash flows, asset sales may be required to satisfy obligations or rebalance asset portfolios. The Company's invested assets as of December 31, 2014 (including cash and cash equivalents) totaled $79.789 billion.

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

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

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

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

Long-term debt:

$ in Millions	As of December 31, 2014	As of December 31, 2013
5.588% Mortgage loan, due 2015	$ -	$47
6.70% Notes, due 2016	249	249
7.00% Junior Subordinated notes, due 2067[1]	300	300
5.00% Notes, due 2021	600	600
4.95% Notes, due 2022	750	750
4.25% Notes, due 2023	1,000	1,000
8.50% Surplus notes, due 2025	140	140
7.875% Surplus notes, due 2026	227	227
7.625% Notes, due 2028	3	3
3.91% - 4.25% Federal Home Loan Bank Borrowings, due 2032	300	300
7.00% Notes, due 2034	231	231
6.50% Notes, due 2035	471	471
7.50% Notes, due 2036	19	19
7.80% Junior Subordinated notes, due 2087[2]	700	700
10.75% Junior Subordinated notes, due 2088[3]	196	255
6.50% Notes, due 2042	750	750
4.85% Notes, due 2044	1,050	-
7.697% Surplus notes, due 2097	260	260
Subtotal	7,246	6,302
Unamortized discount	(14)	(17)
Total long-term	$7,232	$6,285

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

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

Debt Transactions and In-force Credit Facilities

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

During the three and twelve months ended December 31, 2014, the Company repurchased $8 million and $59 million of the 10.75% Junior Subordinated notes due 2088 compared to repurchases of $97 million and $365 million, respectively, in 2013. Pre-tax losses of $5 million and $34 million were recorded on these transactions for the three months and twelve months ended December 31, 2014 compared to pre-tax losses of $55 million and $211 million, respectively, in 2013 and are included in loss on extinguishment of debt in the accompanying consolidated statements of income.

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

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

On December 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, 2014, there was no commercial paper or borrowings outstanding on the facility.

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

On December 20, 2012, LMIC entered into a three-year $1 billion repurchase agreement which terminates on December 20, 2015. As of December 31, 2014, there are no borrowings outstanding on the facility. In connection with the new facility, the Company terminated its $1 billion three-year repurchase agreements dated March 26, 2010.

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

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

Interest Expense

Consolidated interest expense for the three and twelve months ended December 31, 2014 was $109 million and $419 million, an increase of $4 million and a decrease of $1 million versus the same periods in 2013. Interest expense reflects the new debt issuances in 2013 and 2014, offset by debt repurchases and maturities. As previously discussed, the Company continues to evaluate market conditions and may periodically effect transactions in its debt, subject to applicable limitations. Debt repurchases may be done through open market or other appropriate transactions.

Holding Company Liquidity and Capital Resources

The Company conducts substantially all of its operations through its wholly owned insurance and service company subsidiaries, and therefore is primarily dependent on dividends, distributions, loans or other payments of funds from these entities to meet its current and future obligations. However, the subsidiaries are separate and distinct legal entities and have no obligation to make funds available to the Company, whether in the form of loans, dividends or other distributions. As of December 31, 2014, the Company, through its downstream subsidiary LMGI, had $6.316 billion of debt outstanding, excluding discount.

The insurance subsidiaries' ability to pay dividends on preferred or common stock is restricted under applicable insurance laws and regulations and may be paid only from unassigned surplus. Under the insurance laws of the domiciliary states of the insurance subsidiaries, an insurer may make an ordinary dividend payment if its surplus as regards policyholders, following such dividend, is reasonable in relation to its outstanding liabilities, is adequate to meet its financial needs, and does not exceed the insurer's unassigned surplus. However, no insurer may pay an extraordinary dividend without the approval or non-disapproval of the domiciliary insurance regulatory authority. Under the insurance laws of Massachusetts, the domiciliary state of LMIC, an extraordinary dividend is defined as a dividend whose fair market value, together with other dividends made within the preceding 12 months, exceeds the greater of 10% of the insurer's surplus as regards policyholders as of the preceding December 31, or the insurer's net income for

the 12-month period ending on the preceding December 31. Under the insurance laws of Wisconsin, the domiciliary state of LMFIC and EICOW, an extraordinary dividend is defined as a dividend whose fair market value, together with other dividends paid within the preceding 12 months, exceeds the lesser of (a) 10% of the insurer's surplus as regards policyholders as of the preceding December 31, or (b) the greater of (1) the insurer's net income for the preceding calendar year, minus realized capital gains for that calendar year, or (2) the aggregate of the insurer's net income for the three preceding calendar years minus realized capital gains for those calendar years and minus dividends paid within the first two of the preceding three calendar years. Changes in the extraordinary dividend regulation of the domiciliary states of LMIC, LMFIC and EICOW could negatively affect LMGI's ability to pay principal and interest on its debt, as could a redomestication, merger or consolidation of LMIC, LMFIC or EICOW to a different domiciliary state.

The authorized control level risk-based capital (as of December 31, 2014) and 2015 available dividend capacity prior to needing regulatory approval for LMIC, LMFIC and EICOW were as follows:

$ in Millions	**RBC Ratio[1]**		**Dividend Capacity[2]**	**Dividends Paid[3]**
RBC Ratios and Dividend Capacity	**2014**	**2013**	**2015**	**2014**
LMIC	514%	474%	$1,614	$65
LMFIC	485%	453%	115	$27
EICOW	467%	427%	112	-

[1] Authorized control level risk-based capital as defined by the NAIC.
[2] Represents the estimated maximum allowable dividend without prior regulatory approval in the state of domicile.
[3] Dividends paid represent amounts paid during the twelve months ended December 31, 2014. Available dividend capacity as of December 31, 2014 is calculated as 2015 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 investment advisor is entitled to recover annual expenses for investment management services performed by its employees.
- Liberty Corporate Services LLC ("LCS"), which through its subsidiaries collects fees and other revenues, primarily for claims administration and agency services rendered for affiliated and non-affiliated entities. For the three and twelve months ended December 31, 2014, LCS recorded $41 million and $317 million, respectively, in pre-tax income.
- Approximately $80 million of annual dividends related to non-redeemable perpetual preferred stock issuances by LMIC and LMFIC.

Statutory Surplus

Statutory surplus as regards policyholders for the combined operations of LMIC and its U.S affiliates, including international branches, was $19.180 billion and $17.508 billion at December 31, 2014 and December 31, 2013, respectively. The increase in surplus primarily reflects net income of $1.600 billion (the sum of earnings from the Company's 56 domestic property-casualty insurance companies and dividends from subsidiaries), unaffiliated unrealized gains of $46 million, and an increase to other changes in surplus of $270 million, partially offset by affiliated unrealized losses of $244 million. Other changes in surplus is primarily driven by capital contributions and non-admitted goodwill, partially offset by a decrease in goodwill amortization expense, net deferred tax assets, and dividends to stockholders.

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 A&E liability reserves and loss sensitive premium attributable to prior years, (2) reinsurance recoverables and associated uncollectible allowance, (3) fair value determination and other-than-temporary impairments of the investment portfolio, (4) recoverability of deferred acquisition costs, (5) valuation of goodwill and intangible assets, (6) deferred income tax valuation allowance, and (7) pension and postretirement benefit obligations.

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

Adoption of Accounting Standards

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

Accounting Standards Not Yet Adopted

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

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

Unpaid Claims and Claim Adjustment Expenses

Reserves for property-casualty unpaid claims and claim adjustment expenses were $50.388 billion and $52.750 billion as of December 31, 2014 and December 31, 2013, respectively.

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

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

property damage claims, tend to be easier to estimate than "long-tail" claims, such as workers compensation or general liability claims.

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

Asbestos and Environmental

The Company's A&E reserves for unpaid claims and claim adjustment expenses, net of reinsurance before consideration of the NICO Reinsurance Transaction and including uncollectible reinsurance, were $1.225 billion and $1.329 billion as of December 31, 2014 and December 31, 2013, respectively.

In the third quarter of 2014, the Company completed asbestos ground-up and aggregate environmental reserve studies. These studies were completed by a multi-disciplinary team of internal claims, legal, reinsurance and actuarial personnel, and included all major business segments of the Company's direct, assumed, and ceded A&E unpaid claim liabilities. As part of the internal review, policyholders with the largest direct asbestos unpaid claim liabilities were individually evaluated using the Company's proprietary stochastic ground-up model, which is consistent with published actuarial methods of asbestos reserving. Among the factors reviewed in depth by the team of specialists were the type of business, level of exposure, coverage limits, geographic distribution of products, injury type, jurisdiction and legal defenses. Reinsurance recoveries for these policyholders were then separately evaluated by the Company's reinsurance and actuarial personnel. A&E unpaid claim liabilities for all other policyholders were evaluated using aggregate methods that utilized information and experience specific to these policyholders. The studies resulted in an increase to reserves of $111 million including: $83 million of asbestos reserves, primarily associated with increased defense costs, and $28 million of pollution reserves.

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

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

Reinsurance Recoverables

The Company reported reinsurance recoverables of $13.986 billion and $11.786 billion at December 31, 2014 and December 31, 2013, respectively, net of allowance for doubtful accounts of $149 million and $163 million, respectively. The increase in reinsurance recoverables is primarily due to the NICO Reinsurance Transaction (see below for additional details). Included in these balances are $548 million and $607 million of paid recoverables and $13.587 billion and $11.342 billion of unpaid recoverables, respectively.

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

uncollectible reinsurance recoverables is also an inherently uncertain process involving estimates. Changes in these estimates could result in additional charges to the Consolidated Statements of Income.

On July 17, 2014, the Company entered into the NICO Reinsurance Transaction with NICO, a subsidiary of Berkshire Hathaway Inc., on a combined aggregate adverse development cover for substantially all of the Company's U.S. workers compensation (pre-2014 accident year) and A&E liabilities, attaching at approximately $12.5 billion of combined aggregate reserves, with an aggregate limit of $6.5 billion and sublimits of $3.1 billion for A&E liabilities and $4.5 billion for certain workers compensation liabilities. At the closing of the NICO Reinsurance Transaction, but effective as of January 1, 2014, the Company ceded approximately $3.3 billion of existing liabilities under this retroactive reinsurance agreement. NICO will provide approximately $3.2 billion of additional aggregate adverse development cover. The Company paid NICO total consideration of approximately $3.0 billion.

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

The NICO Reinsurance Transaction is accounted for as retroactive reinsurance in the Company's GAAP consolidated financial statements.

The following table displays the impact of the NICO Reinsurance Transaction on the consolidated statements of income (amounts in millions):

Twelve months ended December 31, 2014	**2014**
A&E (favorable) / unfavorable development before consideration of NICO Reinsurance Transaction	$ 110
Workers compensation (favorable) / unfavorable development before consideration of NICO Reinsurance Transaction	(25)
Total additional amounts ceded under NICO Reinsurance Transaction	85
Retroactive reinsurance benefits recognized into income	(85)
Pre-tax impact of unrecognized deferred retroactive reinsurance benefit	$ -

During 2014, the Company recorded $85 million of net A&E and workers compensation adverse development. As a result of the NICO Reinsurance Transaction, the Company was able to recognize the full $85 million as a benefit to income. Once the aggregate of workers compensation and A&E development exceeds the original pre-tax loss deferred gains will be recorded. Deferred gains are subsequently amortized into earnings over the period when underlying claims are settled.

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.

Approximately 95% 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, 2014. Collateral held against outstanding gross reinsurance recoverable balances was $6.632 billion and $4.085 billion at December 31, 2014 and December 31, 2013, respectively.

The remaining 5% 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, 2014.

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 2014 and 2013.

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

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

As of December 31, 2014, and 2013, deferred gains were $8 million and $8 million, respectively, and are included in other liabilities within the accompanying consolidated balance sheets. Interest credited to the funds held balances for the years ended December 31, 2014 and 2013 was $2 million and $72 million, respectively. Deferred gain amortization was $1 million and $337 million for the years ended December 31, 2014 and 2013, respectively. Reinsurance recoverables related to these transactions, including experience related profit accruals, were $64 million and $72 million as of December 31, 2014 and 2013, respectively.

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

Impairment Losses on Investments

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

The Company reviews fixed maturity securities, equity securities and other investments for impairment on a quarterly basis. Securities are reviewed for both quantitative and qualitative considerations including, but not limited to: (a) the extent of the decline in fair value below book value, (b) the duration of the decline, (c) significant adverse changes in the financial condition or near term prospects of the investment or issuer,

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

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

Variable Interest Entities

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

The Company has variable interests in VIEs for which it is not the primary beneficiary and accounts for these VIEs under the equity method in accordance with ASC 323, *Investments-Equity Method and Joint Ventures*. These VIEs are principally private equity limited partnerships in which the Company has invested as a passive limited partner. The partnerships were deemed to be VIEs because the equity holders as a group lack the power to direct the activities that most significantly impact the respective entity's economic performance. The VIEs generate variability primarily from investment portfolio performance and that variability is passed to equity holders. For these VIEs, the Company absorbs a portion, but not a majority, of this variability. The net carrying value of non- consolidated VIEs in which the Company has a significant variable interest was $373 million and $212 million as of December 31, 2014 and December 31, 2013, respectively, and the Company's maximum exposure to loss was $665 million and $242 million as of December 31, 2014 and December 31, 2013, respectively. The assets are included in Other Investments on the accompanying Consolidated Balance Sheets. Maximum exposure to loss includes the carrying value and unfunded commitment of the VIEs. There is no recourse provision to the general credit of the Company for any VIEs beyond the full amount of the Company's loss exposure.

Deferred Acquisition Costs

Total deferred acquisition costs were $3.170 billion and $3.115 billion as of December 31, 2014 and December 31, 2013, respectively. Deferred acquisition costs are costs that are directly related to the acquisition or renewal of insurance contracts. All other acquisition related costs, including market research, training, administration, unsuccessful acquisition or renewal efforts, and product development, are charged to expense as incurred. Deferred acquisition costs are reviewed annually for recoverability. Investment income is considered in the recoverability assessment. For short-duration insurance contracts, acquisition costs include commissions, underwriting expenses, and premium taxes and assessments. For long-duration insurance contracts, these costs include first year commissions in excess of annual renewal commissions and variable sales and underwriting expenses.

Goodwill

Goodwill assets were $4.834 billion and $4.820 billion as of December 31, 2014 and 2013, respectively. Goodwill is tested for impairment at least annually using either a qualitative or a quantitative process. Election of the approach can be made at the reporting unit level. The reporting unit has the option to skip the qualitative test and move directly to completion of the quantitative process. The Company's SBUs are deemed reporting units.

The qualitative approach can be used to evaluate if there are any indicators of impairment. Through this process, the reporting unit must determine if there is indication that it is more likely than not that the fair value of the reporting unit is less than its carrying amount, including goodwill. If it is determined that there is an indication of potential impairment, the reporting unit must complete the quantitative process. The quantitative approach is a two-step process. The first step is performed to identify potential impairment and, if necessary, the second step is performed for the purpose of measuring the amount of impairment, if any. Impairment is recognized only if the carrying amount is not recoverable from the discounted cash flows using a "market" rate and is measured as the difference between the carrying amount and the implied fair value. Other changes in the carrying amount of goodwill are primarily caused by foreign currency translation adjustments and acquisitions.

As of August 31, 2014, the Company utilized a qualitative test in accordance with its accounting policy for all reporting units except for Liberty International, for which a quantitative test was utilized due to the Venezuelan devaluation recognized during the year. As a result of the Company's Liberty Mutual Benefits realignment, the Company performed a relative fair value assessment in order to reallocate the existing goodwill to the SBUs based on June 30, 2014 results. In conjunction with the reallocation, the Company performed a quantitative impairment assessment of goodwill for each of the impacted SBUs. In 2013, the Company utilized a qualitative test in accordance with its accounting policy.

Deferred Income Taxes

The net deferred tax asset was $540 million and $1.251 billion as of December 31, 2014 and December 31, 2013, net of a valuation allowance of $141 million and $173 million, respectively. The net decrease in the Company's net deferred income tax asset is primarily due to changes in net unrealized capital gains and losses on investments and current year utilization of net operating losses offset by changes in employee benefits. The overall decrease in the valuation allowance is primarily due to currency translation and the disposal of Argentina operations. Management believes it is more likely than not that the Company's net deferred income tax asset will be realized based upon the Company's ability and the likelihood of generating future taxable income.

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

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

Balance at December 31, 2013	$298
Additions based on tax positions related to current year	7
Additions for tax positions of prior years	54
Reductions for tax positions of prior years	(149)
Settlements	(24)
Translation	(4)
Balance at December 31, 2014	$182

Included in the tabular roll forward of unrecognized tax benefits is interest and penalties in the amount of $51 million and $93 million as of December 31, 2014 and December 31, 2013, respectively.

Included in the balance at December 31, 2014, is $77 million related to tax positions that would impact the effective tax rate.

The Company recognizes interest and penalties related to unrecognized tax benefits in U.S. Federal, state, and foreign income tax expense. For the three months ended December 31, 2014 and 2013, the Company recognized $(1) and $(16) million of interest and penalties in each period. For the years ended December 31, 2014 and 2013, the Company recognized $(36) million and $(11) million of interest and penalties, respectively. The Company had $59 million and $95 million of interest and penalties accrued as of December 31, 2014 and December 31, 2013, respectively.

The IRS has completed its review of the Company's U.S. Federal income tax returns through the 2005 tax year and is currently reviewing income tax returns for the 2006 through 2011 tax years. Any adjustments that may result from the IRS examinations of these income tax returns are not expected to have a material impact on the financial position, liquidity, or results of operations of the Company.

The Company believes that the range of reasonably possible changes to the balance of unrecognized tax benefits could decrease by $0 to $50 million within the next twelve months as a result of the potential settlements with the IRS for the taxable years 2006 through 2007.

Pension and Postretirement Benefit Obligations

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

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

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

The discount rate assumption used to determine the benefit obligations is based on a yield curve approach where the cash flows related to the benefit plans' liability stream is discounted at an interest rate

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

About the Company

Boston-based LMHC, the parent corporation of the Liberty Mutual Insurance group of entities, is a diversified global insurer and third largest property and casualty insurer in the U.S. based on 2013 direct written premium. The Company also ranks 76th on the Fortune 100 list of largest corporations in the U.S. based on 2013 revenue. As of December 31, 2014, LMHC had $124.304 billion in consolidated assets, $104.002 billion in consolidated liabilities, and $39.631 billion in annual consolidated revenue.

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

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

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