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

# Year Ended December 31, 2015

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

The following discussion highlights significant factors influencing results of operations and changes in financial position of Liberty Mutual Holding Company Inc., the parent corporation of the Liberty Mutual Insurance group of entities (the "Company" or "LMHC"), for the three and twelve months ended December 31, 2015 and 2014. This Management's Discussion & Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the Company's December 31, 2015 Audited Consolidated Financial Statements, and Fourth Quarter 2015 Financial Supplement located on the Company's Investor Relations website at www.libertymutualgroup.com/investors. The Company's discussions related to net income are presented in conformity with U.S. generally accepted accounting principles ("GAAP") on an after-tax basis. All other discussions are presented on a pre-tax GAAP basis, unless otherwise noted. Further, the Company notes that it may make material information regarding the Company available to the public, from time to time, via the Company's Investor Relations website at www.libertymutualgroup.com/investors (or any successor site).

## Index


| | Page |
|---|---|
| Cautionary Statement Regarding Forward Looking Statements | 3 |
| Executive Summary | 4 |
| Consolidated Results of Operations | 5 |
| Review of Financial Results by Business Unit | |
| Personal Insurance | 16 |
| Commercial Insurance | 19 |
| Liberty International | 23 |
| Global Specialty | 27 |
| Corporate and Other | 30 |
| Investments | 33 |
| Liquidity and Capital Resources | 41 |
| Critical Accounting Policies | 45 |
| About the Company | 55 |

**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"), limited liability companies ("LLC"), commercial mortgages and natural resource working interests; difficulty in valuing certain of the Company's investments; subjectivity in the determination of the amount of impairments taken on the Company's investments; unfavorable outcomes from litigation and other legal proceedings, including the effects of emerging claim and coverage issues and investigations by state and federal authorities; the Company's exposure to credit risk in certain of its business operations; the Company's inability to obtain price increases or maintain market share due to competition or otherwise; inadequacy of the Company's pricing models; changes to insurance laws and regulations; changes in the amount of statutory capital that the Company must hold to maintain its financial strength and credit ratings; regulatory restrictions on the Company's ability to change its methods of marketing and underwriting in certain areas; assessments for guaranty funds and mandatory pooling arrangements; a downgrade in the Company's claims-paying and financial strength ratings; the ability of the Company's subsidiaries to pay dividends to the Company; inflation, including inflation in medical costs and automobile and home repair costs; the cyclicality of the property and casualty insurance industry; political, legal, operational and other risks faced by the Company's international business; potentially high severity losses involving the Company's surety products; loss or significant restriction on the Company's ability to use credit scoring in the pricing and underwriting of personal lines policies; inadequacy of the Company's controls to ensure compliance with legal and regulatory standards; changes in federal or state tax laws; risks arising out of the Company's securities lending program; the Company's utilization of information technology systems and its implementation of technology innovations; difficulties with technology or data security; insufficiency of the Company's business continuity plan in the event of a disaster; the Company's ability to successfully integrate operations, personnel and technology from its acquisitions; insufficiency of the Company's enterprise risk management models and modeling techniques; and changing climate conditions. The Company's forward looking statements speak only as of the date of this report or as of the date they are made and should be regarded solely as the Company's current plans, estimates and beliefs. For a detailed discussion of these and other cautionary statements, visit the Company's Investor Relations website at www.libertymutualgroup.com/investors. The Company undertakes no obligation to update these forward looking statements.

**EXECUTIVE SUMMARY**

*The following highlights do not address all of the matters covered in the other sections of Management's Discussion & Analysis of Financial Condition and Results of Operations or contain all of the information that may be important to the investing public. This summary should be read in conjunction with the other sections of Management's Discussion & Analysis of Financial Condition and Results of Operations and the Company's 2015 Audited Consolidated Financial Statements.*

**Consolidated Results of Operations**

| | **Three Months Ended December 31,** | | | **Twelve Months Ended December 31,** | | |
|---|---|---|---|---|---|---|
| **$ in Millions** | **2015** | **2014** | **% Change** | **2015** | **2014** | **% Change** |
| Net Written Premium ("NWP") | $8,116 | $8,231 | (1.4%) | $34,533 | $34,332 | 0.6% |
| Pre-tax operating income ("PTOI") before partnerships, LLC and other equity method (loss) income | 661 | 782 | (15.5) | 2,026 | 2,062 | (1.7) |
| Partnerships, LLC and other equity method (loss) income | (84) | 38 | NM | (34) | 641 | NM |
| Net realized losses | (46) | (113) | (59.3) | (24) | (100) | (76.0) |
| Consolidated net income from continuing operations | 445 | 464 | (4.1) | 1,443 | 1,825 | (20.9) |
| Discontinued operations, net of tax | - | 84 | (100.0) | (909) | (35) | NM |
| Net income attributable to LMHC | $411 | $553 | (25.7%) | $514 | $1,814 | (71.7%) |
| Cash flow provided by operations | $890 | $1,009 | (11.8%) | $3,543 | $630 | NM |

NM = Not Meaningful

| | **Three Months Ended December 31,** | | | **Twelve Months Ended December 31,** | | |
|---|---|---|---|---|---|---|
| **$ in Millions** | **2015** | **2014** | **Point Change** | **2015** | **2014** | **Point Change** |
| Combined ratio before catastrophes[1], net incurred losses attributable to prior years[2] and current accident year re-estimation[3] | 94.1% | 92.8% | 1.3 | 93.0% | 92.7% | 0.3 |
| Combined ratio | 95.7% | 94.2% | 1.5 | 97.8% | 97.8% | - |

| | **As of December 31,** | | |
|---|---|---|---|
| **$ in Millions** | **2015** | **2014** | **% Change** |
| Total equity | $19,241 | $20,291 | (5.2%) |

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

[2]Net incurred losses attributable to prior years is defined as incurred losses attributable to prior years (including prior year losses related to natural catastrophes and prior year catastrophe reinstatement premium) including both earned premium attributable to prior years and amortization of retroactive reinsurance gains.

[3] Re-estimation of the current accident year earned but not reported premium and loss reserves for the nine months ended September 30, 2015.

**Subsequent Events**

On January 14, 2016, the Company completed the acquisition of Compañia de Seguros Generales Penta Security S.A., the fourth largest non-life insurer in Chile. Compañia de Seguros Generales Penta Security S.A. had approximately $160 million of net written premium in 2015.

On February 17, 2016, the Company announced plans to combine its Personal Insurance and Liberty International strategic business units to form a new strategic business unit which will be named Global Consumer Markets. This combination represents an opportunity to blend the complementary strengths of these two operations. The local expertise we have in growth markets outside the U.S. coupled with our strong and scalable U.S. personal lines capabilities put us in a unique position to take maximum advantage of opportunities to grow our business globally. The former Personal Insurance and Liberty International strategic business units will now be divisions of Global Consumer Markets and known as U.S. Consumer Markets and International Consumer Markets, respectively.

## CONSOLIDATED RESULTS OF OPERATIONS

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

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

On December 18, 2015, the Company entered into an agreement to sell its Polish operations to a member of the AXA Group.

Effective September 30, 2015, the Company determined it was appropriate to deconsolidate the Venezuelan operations and recognized an impairment charge of $690 million. Concurrent with this decision, the Company has classified the Venezuelan operations (a net loss of $219 million for the nine months ended September 30, 2015) and the related impairment charge as discontinued operations. Subsequent to deconsolidation, the Company accounts for its ongoing investment in the Venezuela operation on the cost basis. All prior periods have been adjusted to reflect this change.

On July 23, 2015, the Company sold its Quinn-direct branded private motor book in Great Britain to Chaucer Insurance Services Ltd. The Company will now focus on the Republic of Ireland market and plans to transfer the customer management of its Northern Ireland policies on renewal to Hughes Insurance Services Limited. Costs associated with this restructuring are included in the Consolidated Financial Statements.

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

On July 1, 2015, the Company completed the acquisition of Hughes Insurance, an independent insurance broker in Northern Ireland. Hughes Insurance offers motor, van, household, small-to-medium-enterprise commercial insurance and travel insurance with £60 million in gross written premium for the financial year ended March 31, 2014, making it the independent insurance broker with the largest amount of gross written premium in Northern Ireland for that year. Hughes Insurance has been reflected in the Consolidated Financial Statements since the second quarter of 2014.

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

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

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

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

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

On April 1, 2014, the Company sold Summit Holding Southeast, Inc., a mono-line workers compensation company based in Florida, and its related companies (together, "Summit"), to American Financial Group. The results of Summit are presented as discontinued operations in the accompanying Consolidated Statements of Income and are no longer included with Commercial Insurance.

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

**Venezuela**

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

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

On February 10, 2015, the Venezuelan government published changes to its foreign exchange controls, which now maintains a three-tiered system. The new exchange controls retained the CENCOEX, or "official" rate; however, the new exchange controls merged SICAD II into SICAD I, now referred to as SICAD. Additionally, the new exchange controls established the Marginal Foreign Exchange System ("SIMADI"), which is intended to be a free floating rate. As of September 30, 2015, the exchange rate of bolivars per U.S. dollar for CENCOEX, SICAD and SIMADI was 6.3, 13.5, and 198, respectively. The Company used the SICAD rate, consistent with promulgated guidance, to remeasure the Venezuelan operations' financial statements.

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

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

The Company's four SBUs are as follows:

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

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

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

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

***Overview – Consolidated***

Consolidated NWP by significant line of business was as follows:

| | Three Months Ended December 31, | | | Twelve Months Ended December 31, | | |
|---|---|---|---|---|---|---|
| **$ in Millions** | **2015** | **2014** | **Change** | **2015** | **2014** | **Change** |
| Private passenger automobile | $3,016 | $3,007 | 0.3% | $12,375 | $12,226 | 1.2% |
| Homeowners | 1,369 | 1,345 | 1.8 | 5,759 | 5,573 | 3.3 |
| Specialty insurance | 712 | 801 | (11.1) | 3,152 | 3,205 | (1.7) |
| Commercial multiple-peril | 473 | 477 | (0.8) | 1,965 | 1,958 | 0.4 |
| Workers compensation - Voluntary | 431 | 462 | (6.7) | 1,954 | 2,078 | (6.0) |
| Workers compensation - Involuntary | 34 | 24 | 41.7 | 107 | 114 | (6.1) |
| Commercial automobile | 417 | 429 | (2.8) | 1,722 | 1,718 | 0.2 |
| Group disability and group life | 354 | 302 | 17.2 | 1,429 | 1,215 | 17.6 |
| General liability | 321 | 316 | 1.6 | 1,365 | 1,353 | 0.9 |
| Global specialty reinsurance | 144 | 147 | (2.0) | 1,116 | 1,141 | (2.2) |
| Surety | 181 | 178 | 1.7 | 811 | 757 | 7.1 |
| Commercial property | 201 | 199 | 1.0 | 792 | 858 | (7.7) |
| Individual life and A&H | 120 | 175 | (31.4) | 552 | 665 | (17.0) |
| Global specialty inland marine | 118 | 103 | 14.6 | 451 | 442 | 2.0 |
| Other[1] | 225 | 266 | (15.4) | 983 | 1,029 | (4.5) |
| Total NWP[2] | $8,116 | $8,231 | (1.4%) | $34,533 | $34,332 | 0.6% |

1 Primarily includes NWP from allied lines and domestic inland marine.
2 NWP associated with internal reinsurance has been re-allocated to the appropriate lines of business.

NWP for the three and twelve months ended December 31, 2015 was $8.116 billion and $34.533 billion, respectively, a decrease of $115 million and an increase of $201 million versus the same periods in 2014.

Significant changes by major line of business include:

- Private passenger automobile NWP increased $9 million and $149 million in the quarter and year, respectively. The increases reflect rate and model year increases, a greater proportion of twelve-month versus six-month policies, and to a lesser extent, growth in policies in-force in Personal Insurance, along with growth in Liberty International primarily driven by Brazil and Malaysia (acquired in the third quarter of 2014). This was partially offset by the strengthening of the U.S. dollar and the exit from the personal insurance market in Great Britain.
- Homeowners NWP increased $24 million and $186 million in the quarter and year, respectively. The increases reflect rate and coverage increases as well as growth in homeowners policies in-force in Personal Insurance, partially offset by the strengthening of the U.S. dollar.
- Workers compensation - Voluntary NWP decreased $31 million and $124 million in the quarter and year, respectively. The decreases were primarily driven by exposure reductions, partially offset by rate increases and improved retention.
- Group disability and group life NWP increased $52 million and $214 million in the quarter and year, respectively. The increases reflect strong new business sales as well as additional coverages sold to existing customers.
- Commercial property NWP increased $2 million and decreased $66 million in the quarter and year, respectively. The decrease in the year was primarily driven by continued competitive market pressures.
- Individual life and A&H NWP decreased $55 million and $113 million in the quarter and year, respectively. The decreases were primarily driven by lower life-contingent structured settlement sales.
- Specialty insurance NWP decreased $89 million and $53 million in the quarter and year, respectively. The decreases reflect re-underwriting and pricing actions, competitive market conditions, and foreign exchange impact due to the strengthening of the U.S. dollar.

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

Consolidated NWP by SBU was as follows:

| | Three Months Ended December 31, | | | Twelve Months Ended December 31, | | |
|---|---|---|---|---|---|---|
| **$ in Millions** | **2015** | **2014** | **Change** | **2015** | **2014** | **Change** |
| Personal Insurance | $4,079 | $3,852 | 5.9% | $16,807 | $15,952 | 5.4% |
| Commercial Insurance | 2,180 | 2,172 | 0.4 | 9,077 | 9,032 | 0.5 |
| Liberty International | 839 | 1,030 | (18.5) | 3,444 | 4,009 | (14.1) |
| Global Specialty | 1,027 | 1,146 | (10.4) | 4,923 | 5,120 | (3.8) |
| Corporate and Other | (9) | 31 | NM | 282 | 219 | 28.8 |
| Total NWP | $8,116 | $8,231 | (1.4%) | $34,533 | $34,332 | 0.6% |
| Foreign exchange effect on NWP change | | | (3.0) | | | (3.0) |
| NWP change excluding foreign exchange[1] | | | 1.6% | | | 3.6% |

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

Major drivers of NWP growth were as follows:

| | Three Months Ended December 31, | | | | Twelve Months Ended December 31, | | | |
|---|---|---|---|---|---|---|---|---|
| **$ in Millions** | **2015** | **2014** | **$ Change** | **Points Attribution** | **2015** | **2014** | **$ Change** | **Points Attribution** |
| Total NWP[1] | $8,116 | $8,231 | ($115) | (1.4) | $34,533 | $34,332 | $201 | 0.6 |
| Components of growth: | | | | | | | | |
| Domestic personal automobile | 2,495 | 2,353 | 142 | 1.8 | 10,187 | 9,671 | 516 | 1.4 |
| -Domestic homeowners | 1,357 | 1,322 | 35 | 0.4 | 5,723 | 5,480 | 243 | 0.7 |
| -Homeowners quota share | (35) | (34) | (1) | - | (147) | (140) | (7) | - |
| Total domestic homeowners | 1,322 | 1,288 | 34 | 0.4 | 5,576 | 5,340 | 236 | 0.7 |
| International local businesses (ex foreign exchange)[2] | 1,039 | 1,030 | 9 | 0.1 | 4,237 | 4,009 | 228 | 0.7 |
| Specialty insurance (ex foreign exchange)[2] | 727 | 801 | (74) | (0.8) | 3,267 | 3,205 | 62 | 0.2 |
| Global specialty reinsurance (ex foreign exchange)[2] | 147 | 147 | - | - | 1,166 | 1,141 | 25 | 0.1 |
| Global specialty inland marine (ex foreign exchange)[2] | 121 | 103 | 18 | 0.2 | 471 | 442 | 29 | 0.1 |
| Domestic workers compensation | 437 | 453 | (16) | (0.2) | 1,948 | 2,057 | (109) | (0.3) |
| Domestic individual life and A&H | 94 | 141 | (47) | (0.6) | 439 | 538 | (99) | (0.3) |
| Domestic group disability and group life | 314 | 254 | 60 | 0.7 | 1,241 | 1,000 | 241 | 0.7 |
| Surety | 181 | 178 | 3 | - | 811 | 757 | 54 | 0.2 |
| Foreign exchange[2] | (243) | - | (243) | (3.0) | (1,018) | - | (1,018) | (3.0) |
| Other commercial lines | 1,482 | 1,483 | (1) | - | 6,208 | 6,172 | 36 | 0.1 |
| Total NWP | $8,116 | $8,231 | ($115) | (1.4) | $34,533 | $34,332 | $201 | 0.6 |

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** | **2015** | **2014** | **Change** | **2015** | **2014** | **Change** |
| U.S. | $6,753 | $6,598 | 2.3% | $28,394 | $27,502 | 3.2% |
| International[1] | 1,363 | 1,633 | (16.5) | 6,139 | 6,830 | (10.1) |
| Total NWP | $8,116 | $8,231 | (1.4%) | $34,533 | $34,332 | 0.6% |

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** | **2015** | **2014** | **Change** | **2015** | **2014** | **Change** |
| Net operating income | $437 | $550 | (20.5%) | $1,435 | $1,937 | (25.9%) |
| Net realized loss, net of tax | (26) | (78) | (66.7) | (11) | (66) | (83.3) |
| Loss on extinguishment of debt, net of tax | - | (3) | (100.0) | (1) | (22) | (95.5) |
| Discontinued operations, net of tax | - | 84 | (100.0) | (909) | (35) | NM |
| Net income attributable to LMHC | $411 | $553 | (25.7%) | $514 | $1,814 | (71.7%) |

NM = Not Meaningful

| | Three Months Ended December 31, | | | Twelve Months Ended December 31, | | |
|---|---|---|---|---|---|---|
| **$ in Millions** | **2015** | **2014** | **Change** | **2015** | **2014** | **Change** |
| Revenues | $9,335 | $9,401 | (0.7%) | $37,617 | $37,721 | (0.3%) |
| PTOI before catastrophes, net incurred losses attributable to prior years, current accident year re-estimation and partnerships, LLC and other equity method (loss) income | $795 | $897 | (11.4%) | $3,541 | $3,707 | (4.5%) |
| Catastrophes[1] | (289) | (154) | 87.7 | (1,824) | (1,606) | 13.6 |
| Net incurred losses attributable to prior years: | | | | | | |
| - Asbestos & environmental[2] | - | - | - | (4) | (113) | (96.5) |
| - All other[3,4] | 140 | 39 | NM | 313 | 74 | NM |
| Current accident year re-estimation[5] | 15 | - | NM | - | - | - |
| PTOI before partnerships, LLC and other equity method (loss) income | 661 | 782 | (15.5) | 2,026 | 2,062 | (1.7) |
| Partnerships, LLC and other equity method (loss) income [6] | (84) | 38 | NM | (34) | 641 | NM |
| PTOI | 577 | 820 | (29.6) | 1,992 | 2,703 | (26.3) |
| Net realized losses | (46) | (113) | (59.3) | (24) | (100) | (76.0) |
| Loss on extinguishment of debt | - | (5) | (100.0) | (1) | (34) | (97.1) |
| Pre-tax income | 531 | 702 | (24.4) | 1,967 | 2,569 | (23.4) |
| Income tax expense | 86 | 238 | (63.9) | 524 | 744 | (29.6) |
| Consolidated net income from continuing operations | 445 | 464 | (4.1) | 1,443 | 1,825 | (20.9) |
| Discontinued operations, net of tax | - | 84 | (100.0) | (909) | (35) | NM |
| Consolidated net income | 445 | 548 | (18.8) | 534 | 1,790 | (70.2) |
| Less: Net income (loss) attributable to non-controlling interest | 34 | (5) | NM | 20 | (24) | NM |
| Net income attributable to LMHC | $411 | $553 | (25.7%) | $514 | $1,814 | (71.7%) |
| Cash flow provided by operations | $890 | $1,009 | (11.8%) | $3,543 | $630 | NM |

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

2 Net of the NICO Reinsurance Transaction.

3 The twelve months ended December 31, 2015 include a one-time benefit of $91 million due to a reduction in the estimated prior years' liability for state assessments related to workers compensation.

4 Net of earned premium and reinstatement premium attributable to prior years of $32 million and $38 million for the three and twelve months ended December 31, 2015 and ($2) million and $8 million for the same periods in 2014. Net of amortization of deferred gains on retroactive reinsurance of zero and $3 million for the three and twelve months ended December 31, 2015 and 2014.

5 Re-estimation of the current accident year earned but not reported premium and loss reserves for the nine months ended September 30, 2015.

6 Partnerships, LLC and other equity method (loss) income includes LP, LLC and other equity method (loss) income within net investment income in the accompanying Consolidated Statements of Income and revenue and expenses from the production and sale of oil and gas.
NM = Not Meaningful

PTOI for the three and twelve months ended December 31, 2015 was $577 million and $1.992 billion, respectively, decreases of $243 million and $711 million from the same periods in 2014. The decreases in both periods reflect partnerships, LLC, and other equity method losses versus income in the prior year primarily due to energy related investments and significant IPO activity in 2014 that did not recur, increases in catastrophe losses and higher expenses primarily due to advertising, information technology, and employee related costs. These were partially offset by favorable net incurred losses attributable to prior years primarily driven by Global Specialty, a decrease in current accident year losses across all casualty lines in Commercial Insurance and a loss related to the NICO Reinsurance Transaction (including a reduction to the initial loss on the transaction due to a cession of A&E loss development).

Revenues for the three and twelve months ended December 31, 2015 were $9.335 billion and $37.617 billion, respectively, decreases of $66 million and $104 million from the same periods in 2014. The major components of revenues are net premium earned, net investment income, net realized losses, and fee and other revenues.

Net premium earned for the three and twelve months ended December 31, 2015 was $8.544 billion and $33.884 billion, respectively, a decrease of $17 million and an increase of $436 million versus the same periods in 2014. The changes in both periods primarily reflect the impact of premium earned associated with the changes in NWP and foreign exchange losses due to the strengthening of the U.S. dollar.

Net investment income for the three and twelve months ended December 31, 2015 was $583 million and $2.650 billion, respectively, decreases of $58 million and $449 million from the same periods in 2014. The decrease in the year reflects losses in the energy sector. Both the quarter and the year reflect lower valuation changes primarily due to prior year IPO activity that did not recur and lower yields on investments.

Net realized losses for the three and twelve months ended December 31, 2015 were $46 million and $24 million, respectively, decreases of $67 million and $76 million from the same periods in 2014. The losses in the quarter were driven by impairments on bonds, equities, and capitalized technology costs, partially offset by gains on equity security sales and derivatives. These compared to losses of $113 million in the quarter in 2014 driven by impairments of direct investments in oil and gas wells (recognized in the third quarter of 2015). The year to date losses in 2015 and 2014 primarily reflect impairments of direct investments in oil and gas wells of $259 million and $128 million, respectively, partially offset by gains recognized on equity and fixed maturities sales, and derivatives in 2015. The derivatives gains in 2015 were related to two new economic hedges in 2015 for an oil commodity swap and euro forward.

Fee and other revenues for the three and twelve months ended December 31, 2015 were $254 million and $1.107 billion, respectively, decreases of $58 million and $167 million from the same periods in 2014. The decreases primarily reflect lower oil and gas revenues and lower third-party administrator fee income and commissions from servicing carrier operations, partially offset by higher fees associated with life policies and group disability business.

Claims, benefits and expenses for the three and twelve months ended December 31, 2015 were $8.804 billion and $35.649 billion, respectively, increases of $110 million and $531 million over the same periods in 2014. The increases in both periods were driven by higher catastrophe losses, expenses related to advertising, information technology, and employee related costs, as well as, depreciation, depletion, and amortization expenses related to Liberty Energy, and losses and expenses consistent with business growth. These increases were partially offset by favorable incurred losses attributable to prior years driven by Global Specialty and the strengthening of the U.S. dollar. The year benefitted from a decrease in current accident year losses across all casualty lines in Commercial Insurance and a loss related to the NICO

Reinsurance Transaction (including a reduction to the initial loss on the transaction due to a cession of A&E loss development).

Income tax expense on continuing operations for the three and twelve months ended December 31, 2015 was $86 million and $524 million, respectively, decreases of $152 million and $220 million from the same periods in 2014. The Company's effective tax rate on continuing operations for the three and twelve months ended December 31, 2015 was 16% and 27%, respectively, compared to 34% and 29% for the same periods in 2014. The decrease in the effective tax rate for the three months ended December 31, 2015 from 2014 is primarily due to a $40 million tax benefit related to the settlement of the 2006-2007 IRS exam and foreign tax benefits recorded during the fourth quarter of 2015. The decrease in the effective tax rate for the twelve months ended December 31, 2015 from 2014 is primarily due to lower pre-tax income. 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.

Consolidated net income from continuing operations for the three and twelve months ended December 31, 2015 was $445 million and $1.443 billion, respectively, decreases of $19 million and $382 million from the same periods in 2014.

Net operating income for the three and twelve months ended December 31, 2015 was $437 million and $1.435 billion, respectively, decreases of $113 million and $502 million from the same periods in 2014.

Discontinued operations, net of tax for the three and twelve months ended December 31, 2015 were zero and ($909) million, respectively, versus $84 million and ($35) million in the same periods in 2014. The current year reflects the Venezuelan operations, while the prior year also includes Summit and the Argentina operations.

Net income attributable to LMHC for the three and twelve months ended December 31, 2015 was $411 million and $514 million, respectively, decreases of $142 million and $1.300 billion from the same periods in 2014.

Cash flow provided by operations for the three and twelve months ended December 31, 2015 was $890 million and $3.543 billion, respectively, versus $1.009 billion and $630 million in the same periods in 2014. The increases in the year was primarily driven by the funding of the NICO Reinsurance Transaction in 2014 that did not recur.

| CONSOLIDATED | Three Months Ended December 31, 2015 | 2014 | Change (Points) | Twelve Months Ended December 31, 2015 | 2014 | 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 | 62.1% | 61.2% | 0.9 | 61.3% | 61.7% | (0.4) |
| Underwriting expense ratio | 32.0 | 31.6 | 0.4 | 31.6 | 31.0 | 0.6 |
| Dividend ratio | - | - | - | 0.1 | - | 0.1 |
| Subtotal | 94.1 | 92.8 | 1.3 | 93.0 | 92.7 | 0.3 |
| Catastrophes[1] | 3.6 | 1.9 | 1.7 | 5.7 | 5.0 | 0.7 |
| Net incurred losses attributable to prior years: | | | | | | |
| - Asbestos & environmental | - | - | - | - | 0.3 | (0.3) |
| - All other[2,3] | (1.8) | (0.5) | (1.3) | (0.9) | (0.2) | (0.7) |
| Current accident year re-estimation[4] | (0.2) | - | (0.2) | - | - | - |
| Total combined ratio[5] | 95.7% | 94.2% | 1.5 | 97.8% | 97.8% | - |

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

2 The twelve months ended December 31, 2015 include a one-time benefit of $91 million due to a reduction in the estimated prior years' liability for state assessments related to workers compensation.

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

4 Re-estimation of the current accident year earned but not reported premium and loss reserves for the nine months ended September 30, 2015.

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 third-party administration income and fee income (primarily related to the Company's involuntary market servicing carrier operations) and installment charges; and the ratio of policyholder dividends to earned premium. Provisions for uncollectible premium and reinsurance are not included in the combined ratio unless related to an asbestos and environmental commutation and certain other run off.

The consolidated combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation for the three and twelve months ended December 31, 2015 was 94.1% and 93.0%, respectively, increases of 1.3 points and 0.3 points over the same periods in 2014. The increases in the underwriting expense ratio for both periods were primarily driven by higher employee related costs, advertising expenses, and investments in technology. The increase in the claims and claim adjustment expense ratio for the quarter was primarily driven by higher current accident year non-catastrophe homeowners losses in Personal Insurance. The decrease in the claims and claim adjustment expense ratio for the year was primarily driven by improved current accident year losses across all casualty lines of business in Commercial Insurance, partially offset by higher current accident year non-catastrophe auto physical damage losses in Personal 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, 2015 was 95.7% and 97.8%, respectively, increases of 1.5 points and zero over the same periods in 2014. Both periods reflect the changes in the combined ratio previously discussed, favorable net incurred losses attributable to prior years and higher catastrophe losses. The quarter further benefitted from favorable current accident year re-estimation primarily related to workers compensation, while the year benefitted from a reduction in the first quarter in the estimated liability for state assessments related to workers compensation and a loss related to the NICO Reinsurance Transaction (including a reduction to the initial loss on the transaction due to a cession of A&E loss development).

## PERSONAL INSURANCE

***Overview – Personal Insurance***

Personal Insurance sells automobile, homeowners and other types of property and casualty insurance coverage to individuals in the United States. Personal Insurance comprises two segments: Personal Lines and Safeco. Personal Lines products are distributed through approximately 2,200 licensed captive sales representatives, more than 600 licensed telesales counselors, third-party producers and the Internet. Personal Lines' largest source of new business is through its more than 20,000 sponsored affinity groups (including employers, professional and alumni associations, credit unions, and other partnerships). Safeco products are distributed nationally through independent agents.

Personal Insurance NWP by segment was as follows:

| | Three Months Ended December 31, | | | Twelve Months Ended December 31, | | |
|---|---|---|---|---|---|---|
| **$ in Millions** | **2015** | **2014** | **Change** | **2015** | **2014** | **Change** |
| Personal Lines | $2,196 | $2,101 | 4.5% | $9,395 | $8,953 | 4.9% |
| Safeco | 1,883 | 1,751 | 7.5 | 7,412 | 6,999 | 5.9 |
| Total NWP | $4,079 | $3,852 | 5.9% | $16,807 | $15,952 | 5.4% |

Personal Insurance NWP by line of business was as follows:

| | Three Months Ended December 31, | | | Twelve Months Ended December 31, | | |
|---|---|---|---|---|---|---|
| **$ in Millions** | **2015** | **2014** | **Change** | **2015** | **2014** | **Change** |
| Private passenger automobile | $2,487 | $2,331 | 6.7% | $10,097 | $9,614 | 5.0% |
| Homeowners and other | 1,592 | 1,521 | 4.7 | 6,710 | 6,338 | 5.9 |
| Total NWP | $4,079 | $3,852 | 5.9% | $16,807 | $15,952 | 5.4% |

NWP for the three and twelve months ended December 31, 2015 was $4.079 billion and $16.807 billion, respectively, increases of $227 million and $855 million over the same periods in 2014.

Private passenger automobile NWP for the three and twelve months ended December 31, 2015 was $2.487 billion and $10.097 billion, respectively, increases of $156 million and $483 million over the same periods in 2014. The growth reflects a 4.7% increase in average written premiums (resulting from rate and model year increases), a greater proportion of twelve-month versus six-month policies, and to a lesser extent, growth in policies in-force of 0.8% as compared to December 31, 2014.

Homeowners and other NWP for the three and twelve months ended December 31, 2015 was $1.592 billion and $6.710 billion, respectively, increases of $71 million and $372 million over the same periods in 2014. The growth reflects a 4.0% increase in homeowners average written premiums (resulting from rate and coverage changes), ceded premium related to an internal reinsurance treaty in 2014 that did not recur and growth in homeowners policies in-force of 0.9% as compared to December 31, 2014.

***Results of Operations – Personal Insurance***

| | Three Months Ended December 31, | | | Twelve Months Ended December 31, | | |
|---|---|---|---|---|---|---|
| **$ in Millions** | **2015** | **2014** | **Change** | **2015** | **2014** | **Change** |
| Revenues | $4,363 | $4,164 | 4.8% | $17,036 | $16,124 | 5.7% |
| PTOI before catastrophes and net incurred losses attributable to prior years | $657 | $693 | (5.2%) | $2,773 | $2,698 | 2.8% |
| Catastrophes[1] | (185) | 2 | NM | (1,406) | (977) | 43.9 |
| Net incurred losses attributable to prior years | 9 | (6) | NM | (1) | (47) | (97.9) |
| PTOI | $481 | $689 | (30.2%) | $1,366 | $1,674 | (18.4%) |

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

PTOI for the three and twelve months ended December 31, 2015 was $481 million and $1.366 billion, respectively, decreases of $208 million and $308 million from the same periods in 2014. The decrease in the quarter was driven by higher catastrophe losses due to an internal reinsurance treaty in 2014 that did not recur in 2015, higher current accident year non-catastrophe weather-related homeowners losses, and a higher expense ratio driven by advertising. The decrease in the year was driven by higher catastrophe losses due to the non-recurrence of an internal reinsurance treaty previously mentioned, an increase in current accident year non-catastrophe auto physical damage losses due to an increase in severity, and a higher expense ratio driven by advertising, partially offset by unfavorable net incurred losses attributable to prior years in auto liability in 2014 that did not recur. Both periods were also positively impacted by profit margin on growth in earned premium.

Revenues for the three and twelve months ended December 31, 2015 were $4.363 billion and $17.036 billion, respectively, increases of $199 million and $912 million over the same periods in 2014. The major components of revenues are net premium earned and net investment income.

Net premium earned for the three and twelve months ended December 31, 2015 was $4.176 billion and $16.294 billion, respectively, increases of $192 million and $862 million over the same periods in 2014. The increases reflect the premium earned associated with the changes in NWP previously discussed.

Net investment income for the three and twelve months ended December 31, 2015 was $155 million and $616 million, respectively, increases of $8 million and $47 million over the same periods in 2014. The increases were driven by a higher invested asset base, partially offset by a lower investment yield.

Claims, benefits and expenses for the three and twelve months ended December 31, 2015 were $3.882 billion and $15.670 billion, respectively, increases of $407 million and $1.220 billion over the same periods in 2014. The increases reflect the claims, benefits, and expenses associated with the changes in PTOI previously discussed.

| PERSONAL INSURANCE | Three Months Ended December 31, 2015 | 2014 | Change (Points) | Twelve Months Ended December 31, 2015 | 2014 | Change (Points) |
|---|---|---|---|---|---|---|
| **Combined ratio before catastrophes and net incurred losses attributable to prior years** | | | | | | |
| Claims and claim adjustment expense ratio | 61.4% | 60.4% | 1.0 | 60.5% | 60.3% | 0.2 |
| Underwriting expense ratio | 26.0 | 25.0 | 1.0 | 25.6 | 25.2 | 0.4 |
| Subtotal | 87.4 | 85.4 | 2.0 | 86.1 | 85.5 | 0.6 |
| Catastrophes[1] | 4.4 | (0.1) | 4.5 | 8.7 | 6.3 | 2.4 |
| Net incurred losses attributable to prior years | (0.2) | 0.2 | (0.4) | - | 0.3 | (0.3) |
| Total combined ratio | 91.6% | 85.5% | 6.1 | 94.8% | 92.1% | 2.7 |

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

The Personal Insurance combined ratio before catastrophes and net incurred losses attributable to prior years for the three and twelve months ended December 31, 2015 was 87.4% and 86.1%, respectively, increases of 2.0 points and 0.6 points over the same periods in 2014. The increase in the quarter was driven by higher current accident year non-catastrophe weather-related homeowners losses. The increase in the year was driven by higher current accident year non-catastrophe auto physical damage losses. Both periods reflect higher advertising expenses but were positively impacted by claim adjustment expenses growing at a slower rate than premiums earned.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three and twelve months ended December 31, 2015 was 91.6% and 94.8%, respectively, increases of 6.1 points and 2.7 points over the same periods in 2014. The increases in both periods were driven by higher catastrophe losses and the changes in the combined ratio previously discussed. The increase in the year was partially offset by unfavorable net incurred losses attributable to prior years in auto liability in 2014 that did not recur.

## COMMERCIAL INSURANCE

***Overview – Commercial Insurance***

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

Commercial Insurance NWP by market segment was as follows:

| | Three Months Ended December 31, | | | Twelve Months Ended December 31, | | |
|---|---|---|---|---|---|---|
| **$ in Millions** | **2015** | **2014** | **Change** | **2015** | **2014** | **Change** |
| Business Insurance | $1,252 | $1,239 | 1.0% | $5,143 | $5,195 | (1.0%) |
| National Insurance | 469 | 499 | (6.0) | 2,091 | 2,135 | (2.1) |
| Liberty Mutual Benefits | 409 | 395 | 3.5 | 1,679 | 1,538 | 9.2 |
| Other Commercial Insurance | 50 | 39 | 28.2 | 164 | 164 | - |
| Total NWP | $2,180 | $2,172 | 0.4% | $9,077 | $9,032 | 0.5% |

Commercial Insurance NWP by line of business was as follows:

| | Three Months Ended December 31, | | | Twelve Months Ended December 31, | | |
|---|---|---|---|---|---|---|
| **$ in Millions** | **2015** | **2014** | **Change** | **2015** | **2014** | **Change** |
| Commercial multiple-peril | $500 | $494 | 1.2% | $2,069 | $2,026 | 2.1% |
| Workers compensation - Voluntary | 410 | 413 | (0.7) | 1,810 | 1,896 | (4.5) |
| Workers compensation - Involuntary | 34 | 24 | 41.7 | 107 | 114 | (6.1) |
| Commercial automobile | 364 | 359 | 1.4 | 1,475 | 1,452 | 1.6 |
| General liability | 294 | 314 | (6.4) | 1,209 | 1,226 | (1.4) |
| Group disability and group life | 315 | 254 | 24.0 | 1,240 | 1,000 | 24.0 |
| Commercial property | 169 | 173 | (2.3) | 728 | 780 | (6.7) |
| Individual life and A&H | 94 | 141 | (33.3) | 439 | 538 | (18.4) |
| Total NWP | $2,180 | $2,172 | 0.4% | $9,077 | $9,032 | 0.5% |

NWP for the three and twelve months ended December 31, 2015 was $2.180 billion and $9.077 billion, respectively, increases of $8 million and $45 million over the same periods in 2014. Both periods were impacted by higher group disability and group life premium due to strong new business sales and rate increases across most casualty lines of business. The increases in both periods were partially offset by lower life-contingent structured settlement sales, a decrease in general liability and property premium due to continued competitive market pressures and lower voluntary workers compensation premium as lost business, despite improved retention levels, continues to outpace new writings. The quarter was further impacted by higher involuntary workers compensation premium due to a final prior year premium adjustment from the Tennessee Workers Compensation Insurance Plan. The year was further impacted by

an increase in premium related to audits and retrospectively rated contracts, partially offset by lower involuntary workers compensation premium assumed from state pools due to decreased market share.

***Results of Operations – Commercial Insurance***

| | Three Months Ended December 31, | | | Twelve Months Ended December 31, | | |
|---|---|---|---|---|---|---|
| **$ in Millions** | **2015** | **2014** | **Change** | **2015** | **2014** | **Change** |
| Revenues | $2,814 | $2,825 | (0.4%) | $11,187 | $11,106 | 0.7% |
| PTOI before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation | $286 | $330 | (13.3%) | $1,227 | $1,279 | (4.1%) |
| Catastrophes[1] | (85) | (43) | 97.7 | (302) | (325) | (7.1) |
| Net incurred losses attributable to prior years[2,3] | 47 | 26 | 80.8 | 140 | 76 | 84.2 |
| Current accident year re-estimation[4] | 15 | - | NM | - | - | - |
| PTOI | $263 | $313 | (16.0%) | $1,065 | $1,030 | 3.4% |

1 Catastrophes include all current accident year catastrophe losses. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.
2 The twelve months ended December 31, 2015 include a one-time benefit of $91 million due to a reduction in the estimated prior years' liability for state assessments related to workers compensation.
3 Net of earned premium and reinstatement premium attributable to prior years of $36 million and $39 million for the three and twelve months ended December 31, 2015 and ($1) million and $16 million for the same periods in 2014. Net of amortization of deferred gains on assumed retroactive reinsurance of zero and $1 million for the three and twelve months ended December 31, 2015 and $1 million and $2 million for the same periods in 2014.
4 Re-estimation of the current accident year earned but not reported premium and loss reserves for the nine months ended September 30, 2015.
NM = Not Meaningful

PTOI for the three and twelve months ended December 31, 2015 was $263 million and $1.065 billion, respectively, a decrease of $50 million and an increase of $35 million versus the same periods in 2014. The decrease in the quarter reflects unfavorable catastrophe and non-catastrophe property losses, lower third-party administrator fee income and servicing carrier commission revenue, higher employee salary and benefits expense and favorable development on prior accident year catastrophe losses in 2014 that did not recur. The decrease in the quarter was partially offset by improved current accident year losses across most casualty lines of business, favorable net incurred losses attributable to prior years for workers compensation related to accident year 2014 and favorable current accident year re-estimation primarily related to workers compensation. The increase in the year was driven by improved current accident year losses across all casualty lines of business, lower catastrophe losses and a reduction in the estimated prior years' liability for state assessments related to workers compensation. The increase in the year was partially offset by favorable development on prior accident year catastrophe losses in 2014 that did not recur, lower third-party administrator fee income and servicing carrier commission revenue and higher expense related to variable compensation, information technology and employee salary and benefits.

Revenues for the three and twelve months ended December 31, 2015 were $2.814 billion and $11.187 billion, respectively, a decrease of $11 million and an increase of $81 million versus the same periods in 2014. The major components of revenues are net premium earned, net investment income, net realized losses, and fee and other revenues.

Net premium earned for the three and twelve months ended December 31, 2015 was $2.300 billion and $9.117 billion, respectively, increases of $3 million and $61 million over the same periods in 2014. The increases in both periods were driven by growth in Liberty Mutual Benefits and some casualty lines as well as higher earned but not reported premium, partially offset by decreases in workers compensation and commercial property as a result of declining NWP over the prior twelve months.

Net investment income for the three and twelve months ended December 31, 2015 was $393 million and $1.551 billion, respectively, increases of $8 million and $27 million over the same periods in 2014. The

increases in both periods were driven primarily by higher invested assets in Liberty Mutual Benefits, partially offset by a lower investment yield.

Net realized losses for the three and twelve months ended December 31, 2015 were $21 million and $35 million, respectively, increases of $21 million and $27 million over the same periods in 2014. Both periods were primarily driven by technology impairments during 2015.

Fee and other revenues for the three and twelve months ended December 31, 2015 were $142 million and $554 million, respectively, a decrease of $1 million and an increase of $20 million versus the same periods in 2014. Both periods reflect higher fees associated with life and group disability, fully offset in the quarter and partially offset in the year by lower third-party administrator fee income and lower commission revenue from servicing carrier operations. As a servicing carrier, the Company receives fee income for performing certain underwriting, claims and administrative services for all participating involuntary pool members.

Claims, benefits and expenses for the three and twelve months ended December 31, 2015 were $2.572 billion and $10.157 billion, respectively, increases of $60 million and $73 million over the same periods in 2014. The increases in both periods were driven by business growth in Liberty Mutual Benefits, favorable development on prior accident year catastrophe losses during 2014 that did not recur and higher employee salary and benefits expense, partially offset by improved current accident year losses across the casualty lines of business. The quarter was also adversely impacted by higher catastrophe and non-catastrophe property losses, partially offset by favorable incurred losses attributable to prior accident years for workers compensation related to accident year 2014 and current accident year re-estimation primarily related to workers compensation. The year further reflects a reduction in the estimated prior years' liability for state assessments related to workers compensation and lower catastrophe losses during the first nine months of 2015, partially offset by higher variable compensation.

| | **Three Months Ended December 31,** | | | **Twelve Months Ended December 31,** | | |
|---|---|---|---|---|---|---|
| | | | **Change** | | | **Change** |
| **COMMERCIAL INSURANCE** | **2015** | **2014** | **(Points)** | **2015** | **2014** | **(Points)** |
| **Combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation** | | | | | | |
| Claims and claim adjustment expense ratio | 61.6% | 61.5% | 0.1 | 61.5% | 63.0% | (1.5) |
| Underwriting expense ratio | 36.4 | 34.6 | 1.8 | 35.1 | 33.3 | 1.8 |
| Dividend ratio | 0.1 | 0.1 | - | 0.1 | 0.1 | - |
| Subtotal | 98.1 | 96.2 | 1.9 | 96.7 | 96.4 | 0.3 |
| Catastrophes[1] | 4.6 | 2.3 | 2.3 | 4.1 | 4.4 | (0.3) |
| Net incurred losses attributable to prior years[2,3] | (2.6) | (1.4) | (1.2) | (1.9) | (1.0) | (0.9) |
| Current accident year re-estimation[4] | (0.8) | - | (0.8) | - | - | - |
| Total combined ratio | 99.3% | 97.1% | 2.2 | 98.9% | 99.8% | (0.9) |

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

2 The twelve months ended December 31, 2015 include a one-time benefit of $91 million due to a reduction in the estimated prior years' liability for state assessments related to workers compensation.

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

4 Re-estimation of the current accident year earned but not reported premium and loss reserves for the nine months ended September 30, 2015.

The Commercial Insurance combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation for the three and twelve months ended December 31, 2015 was 98.1% and 96.7%, respectively, increases of 1.9 points and 0.3 points over the same periods in 2014. Both periods were impacted by an increase in the underwriting expense ratio driven by a decline in property and casualty earned premium and higher employee salary and benefits expense. The year was further impacted by higher variable compensation expense, partially offset by the decrease in the claims and claim adjustment expense ratio due to improved current accident year losses across all casualty lines of business.

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, 2015 was 99.3% and 98.9%, respectively, an increase of 2.2 points and a decrease of 0.9 points versus the same periods in 2014. The quarter was impacted by the combined ratio increase previously discussed, higher current accident year catastrophes and favorable development on prior accident year catastrophe losses in 2014 that did not recur, partially offset by favorable net incurred losses attributable to prior years for workers compensation related to accident year 2014 and favorable current accident year re-estimation. The decrease in the year was impacted by lower current accident year catastrophe losses and favorable net incurred losses attributable to prior years as a result of a reduction in the estimated liability for state assessments related to workers compensation. The decrease in the year was partially offset by the combined ratio increase previously discussed and favorable development on prior accident year catastrophe losses in 2014 that did not recur.

## LIBERTY INTERNATIONAL

***Overview – Liberty International***

Liberty International sells property, casualty, health and life insurance products and services to individuals and businesses in four market segments: Latin America and Iberia, including Brazil, Colombia, Chile, Ecuador, Spain and Portugal; Emerging Europe, including Turkey, Poland, and Ireland; Asia, including Thailand, Singapore, Hong Kong, Vietnam and Malaysia (as a result of the Uni.Asia acquisition in July 2014); and Large Emerging Markets, including Russia, China and India. Other includes internal reinsurance. Private passenger automobile insurance is the single largest line of business.

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

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

On December 18, 2015, the Company entered into an agreement to sell its Polish operations to a member of the AXA Group.

Liberty International NWP by market segment was as follows:

| | **Three Months Ended December 31,** | | | | **Twelve Months Ended December 31,** | | | |
|---|---|---|---|---|---|---|---|---|
| **$ in Millions** | **2015** | **2014** | **Change** | **Change ex. foreign exchange[1]** | **2015** | **2014** | **Change** | **Change ex. foreign exchange[1]** |
| Latin America and Iberia | $565 | $726 | (22.2%) | 0.8% | $2,277 | $2,822 | (19.3%) | 3.9% |
| Asia | 116 | 121 | (4.1) | 6.0 | 493 | 447 | 10.3 | 16.9 |
| Emerging Europe | 87 | 121 | (28.1) | (17.4) | 409 | 509 | (19.6) | (5.2) |
| Large Emerging Markets | 71 | 62 | 14.5 | 26.2 | 234 | 230 | 1.7 | 16.8 |
| Other | - | - | - | - | 31 | 1 | NM | NM |
| Total NWP | $839 | $1,030 | (18.5%) | 0.8% | $3,444 | $4,009 | (14.1%) | 5.7% |

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

Liberty International NWP by line of business was as follows:

| | Three Months Ended December 31, | | | Twelve Months Ended December 31, | | |
|---|---|---|---|---|---|---|
| **$ in Millions** | **2015** | **2014** | **Change** | **2015** | **2014** | **Change** |
| Private passenger automobile | $521 | $654 | (20.3%) | $2,188 | $2,555 | (14.4%) |
| Commercial automobile | 53 | 69 | (23.2) | 226 | 260 | (13.1) |
| Homeowners | 47 | 57 | (17.5) | 183 | 233 | (21.5) |
| Life and health | 66 | 82 | (19.5) | 301 | 342 | (12.0) |
| Commercial property | 29 | 26 | 11.5 | 52 | 67 | (22.4) |
| Other[1] | 123 | 142 | (13.4) | 494 | 552 | (10.5) |
| Total NWP | $839 | $1,030 | (18.5%) | $3,444 | $4,009 | (14.1%) |

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

NWP for the three and twelve months ended December 31, 2015 was $839 million and $3.444 billion, respectively, decreases of $191 million and $565 million from the same periods in 2014. Both periods reflect the significant negative impact of foreign exchange driven by the strengthening of the U.S. dollar and the exit from the personal insurance market in Great Britain, partially offset by organic growth in commercial and private passenger auto in Colombia. The quarter was negatively impacted by Ireland as a result of re-underwriting efforts and Brazil due to a shortfall in private passenger auto, partially offset by a new large liability policy agreement in China and positive growth in property and a large account in commercial auto in Chile. The year was further impacted by organic growth in Brazil and Spain due to an increase in private passenger business, internal reinsurance program changes and the acquisition of Malaysia in the third quarter of 2014. Further discussion of the Malaysia acquisition and the Great Britain transaction can be found in the Consolidated Results of Operations section.

***Results of Operations – Liberty International***

| | Three Months Ended December 31, | | | Twelve Months Ended December 31, | | |
|---|---|---|---|---|---|---|
| **$ in Millions** | **2015** | **2014** | **Change** | **2015** | **2014** | **Change** |
| Revenues | $932 | $1,065 | (12.5%) | $3,801 | $4,317 | (12.0%) |
| Mature operations and other[1] PTOI before catastrophes and net incurred losses attributable to prior years | $14 | $25 | (44.0%) | $86 | $68 | 26.5 |
| Emerging operations[2] pre-tax operating loss before catastrophes and net incurred losses attributable to prior years | (16) | (53) | (69.8) | (124) | (129) | (3.9) |
| Catastrophes[3] | - | - | - | (13) | (9) | 44.4 |
| Net incurred losses attributable to prior years | 22 | 12 | 83.3 | 2 | 48 | (95.8) |
| Pre-tax operating income (loss) | $20 | ($16) | NM | ($49) | ($22) | 122.7% |

1 Mature operations include Latin America and Iberia and Asia. Other includes internal reinsurance and home office expenses.
2 Emerging operations include Emerging Europe and Large Emerging Markets.
3 2015 catastrophes include all current accident year catastrophe losses for severe storms in the U.K., Chile earthquake and Chile floods. 2014 catastrophes include all current accident year catastrophe losses for the U.K. and Ireland floods. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.
NM = Not Meaningful

Pre-tax operating income (loss) for the three and twelve months ended December 31, 2015 was $20 million and ($49) million, respectively, versus ($16) million and ($22) million for the same periods in 2014. Both periods were impacted by several developments in Ireland, including restructuring costs (primarily during the second quarter of 2015) and higher overall current year claim losses (including U.K. severe storms)

partially offset by releases of a contingent liability, insurance pool reserve and other reserves in 2015. Additionally, both periods were negatively impacted by foreign exchange losses due to continued strengthening of the U.S. dollar, and large flood losses in India, partially offset by the exit of unprofitable middle market business in Brazil, lower auto frequency in Russia, and income from internal reinsurance. The quarter was also positively impacted by a re-estimation of the Chile floods. The decrease in the year was further impacted by large losses in Chile and less favorable net incurred losses attributable to prior years, partially offset by the addition of Malaysia (acquired in the third quarter of 2014).

Revenues for the three and twelve months ended December 31, 2015 were $932 million and $3.801 billion, respectively, decreases of $133 million and $516 million from the same periods in 2014. The primary components of revenues are net premium earned, net investment income and net realized investment gains.

Net premium earned for the three and twelve months ended December 31, 2015 was $812 million and $3.412 billion, respectively, decreases of $160 million and $524 million from the same periods in 2014. The decreases were primarily due to lower premium earned associated with the lower NWP primarily driven by foreign exchange due to the strengthening of the U.S. dollar, partially offset by organic growth in certain operations as previously discussed.

Net investment income for the three and twelve months ended December 31, 2015 was $65 million and $255 million, respectively, decreases of $3 million and $25 million from the same periods in 2014. The decreases were primarily due to the strengthening of the U.S. dollar, partially offset by higher interest rates in Brazil.

Net realized investment gains for the three and twelve months ended December 31, 2015 were $27 million and $34 million, respectively, increases of $25 million and $23 million over the same periods in 2014. The changes in both periods were primarily driven by a sale of an equity investment holding in Spain.

Claims, benefits and expenses for the three and twelve months ended December 31, 2015 were $885 million and $3.816 billion, respectively, decreases of $194 million and $512 million from the same periods in 2014. The decreases in both periods were primarily driven by the strengthening of the U.S. dollar, partially offset by organic growth in Brazil. The quarter was positively impacted by incurred losses attributable to prior years due to Ireland, Malaysia and Singapore. The year was further negatively impacted by large losses in Chile, restructuring costs in Ireland, less favorable net incurred losses attributable to prior years, and the addition of Malaysia (acquired in the third quarter of 2014).

| LIBERTY INTERNATIONAL | Three Months Ended December 31, 2015 | 2014 | Change (Points) | Twelve Months Ended December 31, 2015 | 2014 | Change (Points) |
|---|---|---|---|---|---|---|
| **Combined ratio before catastrophes and net incurred losses attributable to prior years** | | | | | | |
| Claims and claim adjustment expense ratio | 66.4% | 67.6% | (1.2) | 65.4% | 66.1% | (0.7) |
| Underwriting expense ratio | 41.4 | 42.1 | (0.7) | 42.9 | 41.9 | 1.0 |
| Subtotal | 107.8 | 109.7 | (1.9) | 108.3 | 108.0 | 0.3 |
| Catastrophes[1] | - | - | - | 0.4 | 0.2 | 0.2 |
| Net incurred losses attributable to prior years | (2.8) | (1.3) | (1.5) | (0.1) | (1.3) | 1.2 |
| Total combined ratio | 105.0% | 108.4% | (3.4) | 108.6% | 106.9% | 1.7 |

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

The Liberty International combined ratio before catastrophes and net incurred losses attributable to prior years for the three and twelve months ended December 31, 2015 was 107.8% and 108.3%, respectively, a decrease of 1.9 points and an increase of 0.3 points versus the same periods in 2014. Both periods reflect a decrease in the claims and claim adjustment expense ratio due to the reserve release of an insurance pool in Ireland. The quarter was further impacted by a 0.7 point decrease in the underwriting expense ratio due to broker income in Ireland. The year was further impacted by a 1.0 point increase in the underwriting expense ratio due to restructuring costs in Ireland.

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, 2015 was 105.0% and 108.6%, respectively, a decrease of 3.4 points and an increase of 1.7 points versus the same periods in 2014. The quarter reflects the changes in the combined ratio previously discussed as well as favorable net incurred losses attributable to prior years due to Ireland, Malaysia and Singapore and catastrophe losses related to U.K. severe storms partially offset by the re-estimation of the Chile floods. The year was impacted by the changes in the combined ratio previously discussed, catastrophe losses related to the U.K. severe storms and the Chile earthquake, and less favorable net incurred losses attributable to prior years.

## GLOBAL SPECIALTY

***Overview – Global Specialty***

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

Global Specialty NWP by market segment was as follows:

| | Three Months Ended December 31, | | | Twelve Months Ended December 31, | | |
|---|---|---|---|---|---|---|
| **$ in Millions** | **2015** | **2014** | **Change** | **2015** | **2014** | **Change** |
| LSM | $477 | $552 | (13.6%) | $2,614 | $2,715 | (3.7%) |
| LIU | 359 | 385 | (6.8) | 1,381 | 1,533 | (9.9) |
| LM Surety | 151 | 178 | (15.2) | 761 | 748 | 1.7 |
| Other | 40 | 31 | 29.0 | 167 | 124 | 34.7 |
| Total NWP | $1,027 | $1,146 | (10.4%) | $4,923 | $5,120 | (3.8%) |
| Foreign exchange effect on growth | | | (1.8) | | | (3.6) |
| NWP growth excluding foreign exchange[1] | | | (8.6%) | | | (0.2%) |

1 Determined by assuming constant foreign exchange rates between periods.

Global Specialty's major product lines are as follows:

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

Global Specialty NWP by line of business was as follows:

| | Three Months Ended December 31, | | | Twelve Months Ended December 31, | | |
|---|---|---|---|---|---|---|
| **$ in Millions** | **2015** | **2014** | **Change** | **2015** | **2014** | **Change** |
| Specialty insurance | $611 | $716 | (14.7%) | $2,580 | $2,780 | (7.2%) |
| Reinsurance | 144 | 147 | (2.0) | 1,116 | 1,141 | (2.2) |
| Surety | 154 | 180 | (14.4) | 776 | 757 | 2.5 |
| Inland marine | 118 | 103 | 14.6 | 451 | 442 | 2.0 |
| Total NWP | $1,027 | $1,146 | (10.4%) | $4,923 | $5,120 | (3.8%) |

NWP for the three and twelve months ended December 31, 2015 was $1.027 billion and $4.923 billion, respectively, decreases of $119 million and $197 million from the same periods in 2014. The decreases in both periods reflect re-underwriting and pricing actions for selective products in specialty insurance, competitive market conditions and foreign exchange impact due to the strengthening of the U.S. dollar, partially offset by inland marine and LSM selective products business growth. The decrease in the quarter was further impacted by a new LM Surety internal reinsurance program, while the decrease for the year was also partially offset by international growth (including Primero Fianzas acquisition in July 2014) as well as other reinsurance program changes within LIU and LSM.

***Results of Operations – Global Specialty***

| | Three Months Ended December 31, | | | Twelve Months Ended December 31, | | |
|---|---|---|---|---|---|---|
| **$ in Millions** | **2015** | **2014** | **Change** | **2015** | **2014** | **Change** |
| Revenues | $1,287 | $1,339 | (3.9%) | $5,227 | $5,183 | 0.8% |
| PTOI before catastrophes and net incurred losses attributable to prior years | $125 | $167 | (25.1%) | $572 | $660 | (13.3%) |
| Catastrophes [1] | (54) | (20) | 170.0 | (106) | (51) | 107.8 |
| Net incurred losses attributable to prior years [2] | 51 | (33) | NM | 137 | (72) | NM |
| PTOI | $122 | $114 | 7.0% | $603 | $537 | 12.3% |

1 2015 catastrophes include all current accident year catastrophe losses for severe storms in the U.S., U.K. and Australia as well as Cyclone Niklas. 2014 catastrophes include all current accident year catastrophe losses for severe storms in the U.S., U.K. floods, Hurricane Odile and Hailstorm Ela. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

2 Net of earned premium and reinstatement premium attributable to prior years of ($3) million and ($1) million for the three and twelve months ended December 31, 2015 and $1 million and $10 million for the same periods in 2014.

NM=Not Meaningful

PTOI for the three and twelve months ended December 31, 2015 was $122 million and $603 million, respectively, increases of $8 million and $66 million over the same periods in 2014. The increases in both periods reflect favorable net incurred losses attributable to prior years primarily within LM Surety as well as LSM favorable net current year loss activity. The increases in both periods were partially offset by higher catastrophe losses, unfavorable net current year loss activity within LM Surety, higher underwriting expenses due to investments in technology and additional employee related costs across the Global Specialty segments as well as the impact of foreign exchange due to the strengthening of the U.S. dollar.

Revenues for the three and twelve months ended December 31, 2015 were $1.287 billion and $5.227 billion, respectively, a decrease of $52 million and an increase of $44 million versus the same periods in 2014. The major components of revenues are net premium earned and net investment income.

Net premium earned for the three and twelve months ended December 31, 2015 was $1.201 billion and $4.865 billion, respectively, a decrease of $49 million and an increase of $30 million versus the same periods in 2014. The decrease in the quarter reflects the previously mentioned reduction in NWP and the increase in the year reflects the earnings on NWP growth in prior periods partially offset by the foreign exchange impact due to the strengthening of the U.S. dollar.

Net investment income for the three and twelve months ended December 31, 2015 was $90 million and $342 million, respectively, increases of $4 million and $6 million over the same periods in 2014.

Claims, benefits and expenses for the three and twelve months ended December 31, 2015 were $1.172 billion and $4.622 billion, respectively, decreases of $54 million and $24 million from the same periods in 2014. The decreases in both periods reflect favorable incurred losses attributable to prior years primarily within LM Surety as well as favorable current year loss activity in LSM, partially offset by higher catastrophe losses, unfavorable net current year loss activity within LM Surety and higher underwriting expenses due to investments in technology and additional employee related costs across the Global Specialty segments.

| GLOBAL SPECIALTY | Three Months Ended December 31, | | | Twelve Months Ended December 31, | | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | Change (Points) | 2015 | 2014 | Change (Points) |
| **Combined ratio before catastrophes and net incurred losses attributable to prior years** | | | | | | |
| Claims and claim adjustment expense ratio | 60.1% | 57.8% | 2.3 | 60.0% | 59.1% | 0.9 |
| Underwriting expense ratio | 35.7 | 34.9 | 0.8 | 34.5 | 33.3 | 1.2 |
| Dividend ratio | 0.2 | 0.2 | - | 0.2 | 0.2 | - |
| Subtotal | 96.0 | 92.9 | 3.1 | 94.7 | 92.6 | 2.1 |
| Catastrophes [1] | 4.5 | 1.6 | 2.9 | 2.2 | 1.0 | 1.2 |
| Net incurred losses attributable to prior years[2] | (4.2) | 2.7 | (6.9) | (2.9) | 1.5 | (4.4) |
| Total combined ratio | 96.3% | 97.2% | (0.9) | 94.0% | 95.1% | (1.1) |

1 2015 catastrophes include all current accident year catastrophe losses for severe storms in the U.S., U.K. and Australia as well as Cyclone Niklas. 2014 catastrophes include all current accident year catastrophe losses for severe storms in the U.S., U.K. floods, Hurricane Odile and Hailstorm Ela. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

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

The Global Specialty combined ratio before catastrophes and net incurred losses attributable to prior years for the three and twelve months ended December 31, 2015 was 96.0% and 94.7%, respectively, increases of 3.1 points and 2.1 points over the same periods in 2014. For both periods, the increases in the claims and claim adjustment expense ratio reflect unfavorable net current year loss activity within LM Surety, partially offset by LSM favorable net current year loss activity. The increases in the underwriting expense ratio were primarily due to investments in technology and additional employee related costs. The underwriting expense ratio in the quarter was further impacted by higher acquisition costs within LM Surety as well as lower net earned premium consistent with lower net written premium as previously discussed. The year was further impacted by the increased weighting of LM Surety relative to the total SBU, which operates at a higher expense ratio consistent with this line of business. Though no impact to the combined ratio, the claims and claim adjustment expense and underwriting expense ratios in the inland marine line of business reflect unfavorable current year loss activity materially offset by lower underwriting expenses due to a change of terms and conditions.

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, 2015 was 96.3% and 94.0%, respectively, decreases of 0.9 points and 1.1 points from the same periods in 2014. The decreases in both periods reflect favorable net incurred losses attributable to prior years driven primarily by favorable loss emergence from LM Surety, partially offset by the increases in the combined ratio mentioned above and higher catastrophe losses.

## CORPORATE AND OTHER

***Overview – Corporate and Other***

Corporate and Other includes the following significant items:

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

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

- Effective January 1, 2014 until termination on December 31, 2014, Corporate and Commercial Insurance novated their voluntary and involuntary reinsurance treaties that applied to certain pre-2013 workers compensation claims and entered into two new agreements including: (1) certain pre-2014 voluntary workers compensation claims and, (2) certain pre-2014 involuntary workers compensation claims.

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

- Interest expense on the Company's outstanding debt.

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

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

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

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

- For presentation in this MD&A, property and casualty operations' investment income is allocated to the business units based on planned ordinary investment income returns by investment category. The difference between allocated net investment income and actual net investment income is included in Corporate and Other.

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

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

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

| | Three Months Ended December 31, | | | Twelve Months Ended December 31, | | |
|---|---|---|---|---|---|---|
| **$ in Millions** | **2015** | **2014** | **Change** | **2015** | **2014** | **Change** |
| Reinsurance, net | $17 | $11 | 54.5% | $278 | $152 | 82.9% |
| Workers compensation - Voluntary[1] | (12) | 19 | NM | 22 | 67 | (67.2) |
| Other | (14) | 1 | NM | (18) | - | NM |
| Total NWP | ($9) | $31 | NM | $282 | $219 | 28.8% |

[1] Booked as billed adjustment.

NWP for the three and twelve months ended December 31, 2015 was ($9) million and $282 million, respectively, a decrease of $40 million and an increase of $63 million versus the same periods in 2014. Both periods were impacted by less workers compensation exposure impacting the booked as billed adjustment. The year was further impacted by program changes related to the centralization of external reinsurance purchasing resulting in lower external reinsurance costs, along with higher internal reinsurance premiums.

***Results of Operations – Corporate and Other***

| | Three Months Ended December 31, | | | Twelve Months Ended December 31, | | |
|---|---|---|---|---|---|---|
| **$ in Millions** | **2015** | **2014** | **Change** | **2015** | **2014** | **Change** |
| Revenues | ($61) | $8 | NM | $366 | $991 | (63.1%) |
| Pre-tax operating loss before catastrophes, net incurred losses attributable to prior years, and partnerships, LLC and other equity method (loss) income | ($271) | ($265) | 2.3% | ($993) | ($869) | 14.3% |
| Catastrophes[1] | 35 | (93) | NM | 3 | (244) | NM |
| Net incurred losses attributable to prior years: | | | | | | |
| - Asbestos & environmental[2] | - | - | - | (4) | (113) | (96.5) |
| - All other[3] | 11 | 40 | (72.5) | 35 | 69 | (49.3) |
| Pre-tax operating loss before partnerships, LLC and other equity method (loss) income | (225) | (318) | (29.2) | (959) | (1,157) | (17.1) |
| Partnerships, LLC and other equity method (loss) income[4] | (84) | 38 | NM | (34) | 641 | NM |
| Pre-tax operating loss | ($309) | ($280) | 10.4% | ($993) | ($516) | 92.4% |

1 2015 catastrophes include all current accident year catastrophe losses for severe storms in the U.S., Chile earthquake and Chile floods. 2014 catastrophes include all current accident year catastrophe losses for severe storms in the U.S. and Hailstorm Ela. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.
2 Gross of the NICO Reinsurance Transaction.
3 Net of earned premium attributable to prior years of zero for the three and twelve months ended December 31, 2015 and ($2) million and ($18) million for the same periods in 2014. Net of amortization of deferred gains on retroactive reinsurance of zero and $2 million for the three and twelve months ended December 31, 2015 and 2014.
4 Partnerships, LLC and other equity method (loss) income includes LP, LLC and other equity method (loss) income within net investment income in the accompanying Consolidated Statements of Income and revenue and expenses from the production and sale of oil and gas.
NM = Not Meaningful

Pre-tax operating loss for the three and twelve months ended December 31, 2015 was $309 million and $993 million, respectively, increases of $29 million and $477 million over the same periods in 2014. The changes in both periods reflect partnerships, LLC, and other equity method losses versus income in the prior year (including further decreases in oil and gas production operating income and lower valuation changes) and lower net investment income, partially offset by favorable results in 2015 versus losses in 2014 related to a certain internal reinsurance program and less unfavorable annuity reserve development.

The year was further impacted by additional unfavorable results in 2014 that did not recur related to the NICO Reinsurance Transaction, net of the cession of unfavorable A&E development, partially offset by a write-off of certain prepaid assets.

Revenues for the three and twelve months ended December 31, 2015 were ($61) million and $366 million, respectively, versus $8 million and $991 million in the same periods in 2014. The major components of revenues are net premium earned, net investment income (driven by LP, LLC and other equity method investments), net realized losses, and fee and other revenues.

Net premium earned for the three and twelve months ended December 31, 2015 was $55 million and $196 million, respectively, a decrease of $3 million and an increase of $7 million versus the same periods in 2014.

Net investment (loss) income for the three and twelve months ended December 31, 2015 was ($120) million and ($114) million, respectively, versus ($45) million and $390 million in the same periods in 2014. The decrease in the year was primarily a result of losses in the energy sector versus income in the prior year. In addition, the decreases in both periods reflect lower valuation changes primarily due to prior year IPO activity that did not recur and a lower average invested asset base in Corporate due to funding the NICO Reinsurance Transaction.

Net realized losses for the three and twelve months ended December 31, 2015 were $45 million and $25 million, respectively, decreases of $69 million and $78 million from the same periods in 2014. The decrease in the quarter primarily reflects impairments of direct investments in oil and gas wells recognized in 2014 that were recognized in the third quarter of 2015. The year to date losses in 2015 and 2014 primarily reflects impairments of direct investments in oil and gas wells of $259 million and $128 million, respectively, partially offset by gains recognized on equity and fixed maturity sales, and derivatives in 2015. The derivatives gains in 2015 were related to two new economic hedges in 2015 for an oil commodity swap and euro forward.

Fee and other revenues for the three and twelve months ended December 31, 2015 were $49 million and $309 million, respectively, decreases of $60 million and $206 million from the same periods in 2014. The decreases were primarily driven by lower oil and gas revenues as a result of lower prices.

Claims, benefits and expenses for the three and twelve months ended December 31, 2015 were $293 million and $1.384 billion, respectively, decreases of $109 million and $226 million from the same periods in 2014. The changes in both periods reflect favorable results in 2015 versus losses in 2014 related to a certain internal reinsurance program and less unfavorable annuity reserve development. These decreases were partially offset by reinsurance program growth resulting from the centralization of external reinsurance purchasing and higher depreciation, depletion, and amortization expenses related to Liberty Energy. The year was further impacted by unfavorable results in 2014 that did not recur, including losses related to the NICO Reinsurance Transaction, net of the cession of unfavorable A&E development, partially offset by a write-off of certain prepaid assets and higher interest expense.

## INVESTMENTS

***General***

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

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

***Invested Assets (including cash and cash equivalents)***

The following table summarizes the Company's invested assets by asset category as of December 31, 2015 and December 31, 2014:

| **$ in Millions** | **As of December 31, 2015** | | **As of December 31, 2014** | |
|---|---|---|---|---|
| **Invested Assets by Type** | **Carrying Value** | **% of Total** | **Carrying Value** | **% of Total** |
| Fixed maturities, available for sale, at fair value | $62,794 | 80.3% | $63,176 | 80.9% |
| Equity securities, available for sale, at fair value | 2,909 | 3.7 | 3,145 | 4.0 |
| LP, LLC and other equity method investments | 5,023 | 6.4 | 4,752 | 6.1 |
| Commercial mortgage loans | 2,317 | 3.0 | 1,808 | 2.3 |
| Short-term investments | 272 | 0.3 | 626 | 0.8 |
| Other investments | 668 | 0.9 | 621 | 0.8 |
| Cash and cash equivalents | 4,227 | 5.4 | 4,003 | 5.1 |
| Total invested assets | $78,210 | 100.0% | $78,131 | 100.0% |

Total invested assets as of December 31, 2015 were $78.210 billion, an increase of $79 million or 0.1% over December 31, 2014. The increase reflects new commercial mortgage loan investments, net contributions to LP, LLC, & other equity investments, and purchases of fixed maturity investments made throughout the year, partially offset by the unfavorable impact of rising treasury rates, widening spreads, and the strengthening U.S. dollar.

Fixed maturities as of December 31, 2015 were $62.794 billion, a decrease of $382 million or 0.6% from December 31, 2014. The decrease reflects the unfavorable impact of rising treasury rates, widening spreads and the strengthening U.S. dollar, partially offset by purchases of fixed maturities made throughout the year. As of December 31, 2015, included in fixed maturities are commitments to purchase various residential mortgage-backed securities at a cost and fair value of $42 million, and various corporate and municipal securities at a cost and fair value of $23 million.

Equity securities as of December 31, 2015 were $2.909 billion ($2.571 billion common stock and $338 million preferred stock) versus $3.145 billion as of December 31, 2014 ($2.790 billion common stock and

$355 million preferred stock), a decrease of $236 million or 7.5% from December 31, 2014. Of the $2.571 billion of common stock at December 31, 2015, $483 million relates to securities associated with non-guaranteed unit linked products where the policyholder bears the investment risk. The decrease in total equity securities was primarily due to sales and negative market performance.

LP, LLC and other equity method investments as of December 31, 2015 were $5.023 billion, an increase of $271 million or 5.7% over December 31, 2014. The increase primarily reflects net contributions and valuation changes. These investments consist of traditional private equity partnerships of $2.291 billion, natural resources partnerships of $700 million ($507 million related to energy investments), real estate partnerships of $530 million, other partnerships of $1.222 billion, and other equity method investments of $280 million ($279 million of which is related to natural resources). The Company's investments in LP, LLC and other equity method investments are long-term in nature. The Company believes these investments offer the potential for superior long-term returns and are appropriate in the overall context of a diversified portfolio.

Commercial mortgage loans as of December 31, 2015 were $2.317 billion (net of $11 million of loan loss reserves or 0.5% of the outstanding loan portfolio), an increase of $509 million or 28.2% over December 31, 2014. The increase primarily reflects $718 million in funding and a decrease of $3 million to the loan loss reserve, partially offset by $212 million in principal reductions. The entire commercial loan portfolio is U.S.-based. The number of loans in the portfolio increased from 4,509 at December 31, 2014 to 4,763 at December 31, 2015.

Short-term investments as of December 31, 2015 were $272 million, a decrease of $354 million or 56.5% from December 31, 2014. The decrease reflects sales and maturities of short-term holdings across the Company's international operations.

Other investments as of December 31, 2015 were $668 million, an increase of $47 million or 7.6% over December 31, 2014. The increase was primarily related to purchases and valuation gains on investments.

Cash and cash equivalents as of December 31, 2015 were $4.227 billion, an increase of $224 million or 5.6% over December 31, 2014. The increase was primarily related to increases in operational cash and the maturity of short term investments in the company's international portfolio.

Regarding fair value measurements, as of December 31, 2015, excluding other assets, the Company reflected $5.157 billion (7.7%) as level 1 (quoted prices in active markets) primarily consisting of U.S. Treasuries and common equity securities. The majority of the Company's invested assets are reported as level 2 (quoted prices from other observable inputs). As of December 31, 2015, the Company reported $60.260 billion (90.5%) as level 2, consisting primarily of fixed maturity securities. Finally, the Company reported $1.170 billion (1.8%) 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, 2015, the Company had unfunded commitments in traditional private equity partnerships, natural resources, real estate, and other of $1.354 billion, $2.440 billion ($2.410 billion of which is related to energy investments), $378 million, and $1.057 billion, respectively. Unfunded energy investment commitments as of December 31, 2015 were $2.410 billion, of which, $749 million and $1.661 billion are related to natural resources partnerships and direct investments in oil and gas wells, respectively. The majority of energy commitments are subject to contractual price floors. If certain price targets are not met, the Company is not required to fund these investments until pricing improves. Due to current market conditions, energy prices would need to increase significantly in order for these commitments to become callable.

As of December 31, 2015, no single issuer, excluding U.S. Treasuries, agency securities and mortgage-backed securities, accounted for more than 0.6% of invested assets. As of December 31, 2015, investments in the energy sector accounted for $3.000 billion or 3.8% of total invested assets. These investments consist of investment grade bonds of $2.081 billion, bonds that were rated below investment grade of $239 million, publicly traded equity securities of $160 million, and natural resources partnerships and other equity

method investments of $520 million. In addition, the Company has direct investments in oil and gas wells of $1.527 billion which are included in other assets on the Consolidated Balance Sheets.

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

| **$ in Millions**<br>**December 31, 2015** | **Amortized Cost** | **Gross Unrealized Gains** | **Gross Unrealized Losses** | **Fair Value** |
|---|---|---|---|---|
| U.S. government and agency securities | $3,182 | $142 | ($12) | $3,312 |
| Residential MBS [1] | 7,224 | 185 | (29) | 7,380 |
| Commercial MBS | 1,592 | 20 | (16) | 1,596 |
| Other MBS and ABS [2] | 3,051 | 57 | (15) | 3,093 |
| U.S. state and municipal | 13,553 | 666 | (54) | 14,165 |
| Corporate and other | 28,749 | 991 | (694) | 29,046 |
| Foreign government securities | 4,042 | 197 | (37) | 4,202 |
| Total fixed maturities | 61,393 | 2,258 | (857) | 62,794 |
| Common stock | 2,193 | 488 | (110) | 2,571 |
| Preferred stock | 378 | 14 | (54) | 338 |
| Total equity securities | 2,571 | 502 | (164) | 2,909 |
| Total securities available for sale | $63,964 | $2,760 | ($1,021) | $65,703 |

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

| **$ in Millions**<br>**December 31, 2014** | **Amortized Cost** | **Gross Unrealized Gains** | **Gross Unrealized Losses** | **Fair Value** |
|---|---|---|---|---|
| U.S. government and agency securities | $2,943 | $192 | ($10) | $3,125 |
| Residential MBS | 7,921 | 281 | (24) | 8,178 |
| Commercial MBS | 1,483 | 36 | (9) | 1,510 |
| Other MBS and ABS | 2,855 | 76 | (14) | 2,917 |
| U.S. state and municipal | 13,020 | 962 | (18) | 13,964 |
| Corporate and other | 26,977 | 1,663 | (146) | 28,494 |
| Foreign government securities | 4,752 | 260 | (24) | 4,988 |
| Total fixed maturities | 59,951 | 3,470 | (245) | 63,176 |
| Common stock | 2,210 | 638 | (58) | 2,790 |
| Preferred stock | 393 | 20 | (58) | 355 |
| Total equity securities | 2,603 | 658 | (116) | 3,145 |
| Total securities available for sale | $62,554 | $4,128 | ($361) | $66,321 |

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

| **$ in Millions** | **As of December 31, 2015** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Mortgage & Asset-Backed Fixed Maturities by Credit Quality**[1] | **AAA** | **AA** | **A** | **BBB** | **BB** | **B or Lower** | **Total** | **% of Total** |
| SBA loans | $2,121 | $- | $- | $- | $- | $- | $2,121 | 17.6% |
| GNMA residential mortgage | 3,050 | 3 | - | - | - | - | 3,053 | 25.3 |
| FNMA residential mortgage | 2,035 | - | - | - | - | - | 2,035 | 16.8 |
| FHLMC residential mortgage | 2,019 | - | - | - | - | - | 2,019 | 16.7 |
| Non-agency residential mortgage | 28 | 7 | 1 | 3 | 16 | 218 | 273 | 2.3 |
| Commercial MBS | 1,498 | 68 | 8 | 22 | - | - | 1,596 | 13.2 |
| Non-mortgage ABS | 548 | - | 62 | 352 | 3 | 7 | 972 | 8.1 |
| Total | $11,299 | $78 | $71 | $377 | $19 | $225 | $12,069 | 100.0% |
| % of Total | 93.6% | 0.6% | 0.6% | 3.1% | 0.2% | 1.9% | 100.0% | |

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

Approximately 76% of the Company's mortgage and asset-backed fixed maturity portfolio is explicitly backed by the U.S. government (SBA and GNMA) or by government-sponsored entities (FNMA and FHLMC). Approximately 94% of the holdings are rated AAA. The commercial mortgage-backed securities portfolio is well diversified and of high quality with approximately 94% rated AAA.

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

| **$ in Millions** | **As of December 31, 2015** | | **As of December 31, 2014** | |
|---|---|---|---|---|
| **Fixed Maturities by Credit Quality**[1] | **Fair Value** | **% of Total** | **Fair Value** | **% of Total** |
| AAA | $19,777 | 31.5% | $20,987 | 33.2% |
| AA+, AA, AA- | 11,459 | 18.2 | 10,982 | 17.4 |
| A+, A, A- | 14,620 | 23.3 | 15,660 | 24.8 |
| BBB+, BBB, BBB- | 13,474 | 21.5 | 11,909 | 18.9 |
| Total investment grade | 59,330 | 94.5 | 59,538 | 94.3 |
| BB+, BB, BB- | 1,585 | 2.5 | 1,476 | 2.3 |
| B+, B, B- | 1,448 | 2.3 | 1,605 | 2.5 |
| CCC or lower | 431 | 0.7 | 557 | 0.9 |
| Total below-investment grade | 3,464 | 5.5 | 3,638 | 5.7 |
| Total fixed maturities | $62,794 | 100.0% | $63,176 | 100.0% |

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

The Company's allocation to investment grade (fixed maturities with an average credit rating of BBB- or higher) securities was approximately 94% at December 31, 2015, slightly higher than December 31, 2014. The Company's allocation to below-investment grade (fixed maturities with an average credit rating below BBB-) securities was approximately 6% at December 31, 2015, slightly lower than December 31, 2014. The Company's holdings of below investment grade securities primarily consist of an actively managed diversified portfolio of high yield securities and leveraged loans within the domestic insurance portfolios and investments in emerging market sovereign and corporate debt primarily in support of the Company's international insurance operations. Overall, the average credit quality rating stands at A+ as of December 31, 2015.

The following table summarizes available for sale fixed maturity securities by contractual maturity at December 31, 2015 and December 31, 2014. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid with or without call or prepayment penalties. Due to the potential for prepayment on MBS and ABS, they are not categorized by contractual maturity.

| **$ in Millions** | **As of December 31, 2015** | | **As of December 31, 2014** | |
|---|---|---|---|---|
| **Fixed Maturities by Maturity Date** | **Fair Value** | **% of Total** | **Fair Value** | **% of Total** |
| One year or less | $3,515 | 5.6% | $3,460 | 5.5% |
| Over one year through five years | 16,298 | 26.0 | 17,009 | 26.9 |
| Over five years through ten years | 17,255 | 27.5 | 17,327 | 27.4 |
| Over ten years | 13,657 | 21.7 | 12,775 | 20.2 |
| MBS and ABS | 12,069 | 19.2 | 12,605 | 20.0 |
| Total fixed maturities | $62,794 | 100.0% | $63,176 | 100.0% |

During 2015, after taking into consideration changes in investment opportunities and its view of the current and prospective business and economic environment, the Company has made only minor adjustments to the average duration of its investment portfolio.

**Net Investment Income**

The following table summarizes the Company's net investment income for the three and twelve months ended December 31, 2015 and 2014:

| **$ in Millions** | **Three Months Ended December 31,** | | **Twelve Months Ended December 31,** | |
|---|---|---|---|---|
| **Net Investment Income** | **2015** | **2014** | **2015** | **2014**[1] |
| Taxable interest income | $521 | $524 | $2,080 | $2,109 |
| Tax-exempt interest income | 87 | 87 | 374 | 399 |
| Dividends | 16 | 20 | 65 | 74 |
| LP, LLC and other equity method (loss) income | (37) | 24 | 153 | 574 |
| Commercial mortgage loans | 29 | 24 | 112 | 93 |
| Other investment income | 7 | 5 | 26 | 12 |
| Gross investment income | 623 | 684 | 2,810 | 3,261 |
| Investment expenses[2] | (40) | (43) | (160) | (148) |
| Net investment income | $583 | $641 | $2,650 | $3,113 |

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

Net investment income for the three and twelve months ended December 31, 2015 was $583 million and $2.650 billion, respectively, decreases of $58 million and $463 million from the same periods in 2014. The decrease in the year was primarily a result of lower changes in valuations in the energy sector. In addition, both the quarter and the year reflect lower valuation changes primarily due to prior year IPO activity that did not recur.

**Net Realized Gains (Losses)**

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

| $ in Millions<br>Net Realized Gains (Losses) | Sales & Dispositions | Impairments | Change in Derivatives Value | Total |
|---|---|---|---|---|
| Three Months Ended December 31, 2015: | | | | |
| Fixed maturities | ($20) | ($43) | - | ($63) |
| Equities | 34 | (19) | - | 15 |
| Other | (4) | (11) | 17 | 2 |
| Total | $10 | ($73) | $17 | ($46) |
| | | | | |
| Three Months Ended December 31, 2014: | | | | |
| Fixed maturities | $22 | ($29) | $- | ($7) |
| Equities | - | (3) | - | (3) |
| Other | (15) | (88) | - | (103) |
| Total | $7 | ($120) | $- | ($113) |

| $ in Millions<br>Net Realized Gains (Losses) | Sales & Dispositions | Impairments | Change in Derivatives Value | Total |
|---|---|---|---|---|
| Twelve Months Ended December 31, 2015: | | | | |
| Fixed maturities | $107 | ($62) | - | $45 |
| Equities | 259 | (48) | - | 211 |
| Other | (13) | (300) | 33 | (280) |
| Total | $353 | ($410) | $33 | ($24) |
| | | | | |
| Twelve Months Ended December 31, 2014: | | | | |
| Fixed maturities | $91 | ($33) | $- | $58 |
| Equities | 70 | (12) | - | 58 |
| Other | (9) | (207) | - | (216) |
| Total | $152 | ($252) | $- | ($100) |

| $ in Millions | Three Months Ended December 31, | | Twelve Months Ended December 31, | |
|---|---|---|---|---|
| **Components of Net Realized (Losses) Gains** | **2015** | **2014** | **2015** | **2014** |
| Fixed maturities: | | | | |
| Gross realized gains | $25 | $30 | $180 | $153 |
| Gross realized losses | (88) | (37) | (135) | (95) |
| Equities: | | | | |
| Gross realized gains | 66 | 43 | 342 | 138 |
| Gross realized losses | (51) | (46) | (131) | (80) |
| Other: | | | | |
| Gross realized gains | 21 | 1 | 67 | 48 |
| Gross realized losses | (19) | (104) | (347) | (264) |
| Total net realized losses | ($46) | ($113) | ($24) | ($100) |

Net realized losses for the three and twelve months ended December 31, 2015 were $46 million and $24 million, respectively, decreases of $67 million and $76 million from the same periods in 2014. The losses in the quarter were driven by impairments on bonds, equities, and technology, partially offset by gains on equity security sales and derivatives. These compared to losses of $113 million in the quarter in 2014 driven by impairments of direct investments in oil and gas wells (recognized in the third quarter of 2015). The year to date losses in 2015 and 2014 primarily reflect impairments of direct investments in oil and gas wells of $259 million and $128 million, respectively, partially offset by gains recognized on equity and fixed maturities sales, and derivatives in 2015. The derivatives gains in 2015 were related to two new economic hedges in 2015 for an oil commodity swap and euro forward.

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, 2015 and that are not deemed to be other-than-temporarily impaired:

| $ in Millions | Less Than 12 Months | | 12 Months or Longer | |
|---|---|---|---|---|
| **Unrealized Losses & Fair Value by Security Type** | **Unrealized Losses** | **Fair Value of Investments with Unrealized Losses** | **Unrealized Losses** | **Fair Value of Investments with Unrealized Losses** |
| U.S. Government and agency securities | ($8) | $1,304 | ($4) | $245 |
| Residential MBS | (21) | 2,445 | (8) | 364 |
| Commercial MBS | (13) | 737 | (3) | 122 |
| Other MBS and ABS | (11) | 1,280 | (4) | 166 |
| U.S. state and municipal | (47) | 1,647 | (7) | 142 |
| Corporate and other | (510) | 10,543 | (184) | 1,027 |
| Foreign government securities | (22) | 911 | (15) | 298 |
| Total fixed maturities | (632) | 18,867 | (225) | 2,364 |
| Common stock | (98) | 653 | (12) | 33 |
| Preferred stock | (1) | 4 | (53) | 254 |
| Total equity securities | (99) | 657 | (65) | 287 |
| Total securities available for sale | ($731) | $19,524 | ($290) | $2,651 |

Unrealized losses increased from $361 million as of December 31, 2014 to $1.021 billion as of December 31, 2015 primarily due to the unfavorable impact of widening spreads and rising treasury rates. Unrealized losses less than 12 months increased from $150 million at December 31, 2014 to $731 million as of December 31, 2015. Unrealized losses 12 months or longer increased from $211 million as of December

31, 2014 to $290 million as of December 31, 2015. Of the $12 million of unrealized losses 12 months or longer on common stock, $2 million relates to securities associated with non-guaranteed unit linked products where the policyholder bears the investment risk. As of December 31, 2015, there were 922 securities that were in an unrealized loss position for 12 months or longer. The Company monitors the difference between the amortized cost and estimated fair value of debt securities to ascertain whether declines in value are temporary in nature. The Company currently does not have the intent to sell these securities and has determined it is not more likely than not that it would be required to sell these fixed maturity securities before they recover their fair value.

If the Company believes a decline in the value (including foreign exchange rate changes) of a particular investment is temporary, the decline is recorded as an unrealized loss in policyholders' equity. If the decline is believed to be other-than-temporary and the Company believes that it will not be able to collect all cash flows due on its fixed maturity securities, then the carrying value of the investment is written down to the expected cash flow amount and a realized loss is recorded as a credit impairment. A non-credit impairment loss is recognized in other comprehensive income, net of applicable taxes, as the difference between expected cash flows and fair value. The Company has concluded that the gross unrealized losses of fixed maturity securities as of December 31, 2015 are temporary.

For equity securities, if the decline is believed to be other-than-temporary, the carrying value of the investment is written down to fair value and a realized loss is recorded. The gross unrealized losses recorded on equity securities at December 31, 2015 resulted primarily from decreases in quoted fair values from the dates that certain investment securities were acquired as opposed to fundamental changes in the issuer's financial performance and near-term financial prospects. The Company has concluded that the gross unrealized losses of equity securities as of December 31, 2015 are temporary.

## LIQUIDITY AND CAPITAL RESOURCES

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

Net cash flows are generally invested in marketable securities while keeping a certain amount in cash and short-term investments to meet unpredictable cash obligations. The Company monitors the duration of these investments, and purchases and sales are executed with the objective of having adequate cash available to satisfy its maturing liabilities. As the Company's investment strategy focuses on overall asset and liability durations, and not specific cash flows, asset sales may be required to satisfy obligations or rebalance asset portfolios. The Company's invested assets as of December 31, 2015 (including cash and cash equivalents) totaled $78.210 billion.

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

Current maturities of long-term debt:

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

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

Long-term debt:

| **$ in Millions** | **As of December 31, 2015** | **As of December 31, 2014** |
|---|---|---|
| 6.70% Notes, due 2016 | $ - | $249 |
| 7.00% Junior Subordinated notes, due 2067[1] | 300 | 300 |
| 5.00% Notes, due 2021 | 600 | 600 |
| 4.95% Notes, due 2022 | 750 | 750 |
| 4.25% Notes, due 2023 | 1,000 | 1,000 |
| 8.50% Surplus notes, due 2025 | 140 | 140 |
| 7.875% Surplus notes, due 2026 | 227 | 227 |
| 7.625% Notes, due 2028 | 3 | 3 |
| 3.91% - 4.25% Federal Home Loan Bank Borrowings, due 2032 | 300 | 300 |
| 7.00% Notes, due 2034 | 231 | 231 |
| 6.50% Notes, due 2035 | 471 | 471 |
| 7.50% Notes, due 2036 | 19 | 19 |
| 7.80% Junior Subordinated notes, due 2087[2] | 700 | 700 |
| 10.75% Junior Subordinated notes, due 2088[3] | 193 | 196 |
| 6.50% Notes, due 2042 | 750 | 750 |
| 4.85% Notes, due 2044 | 1,050 | 1,050 |
| 7.697% Surplus notes, due 2097 | 260 | 260 |
| Subtotal | 6,994 | 7,246 |
| Unamortized discount | (12) | (14) |
| Total long-term | $6,982 | $7,232 |

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

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

***Debt Transactions and In-force Credit Facilities***

Effective December 21, 2015, LMIC renewed its $1 billion repurchase agreement for a two-year period, which terminates December 21, 2017. To date, no funds have been borrowed under the facility.

During the three and twelve months ended December 31, 2015, the Company repurchased zero and $3 million of the 10.75% Junior Subordinated notes due 2088 compared to repurchases of $8 and $59 million, respectively, in 2014. Pre-tax losses of zero and $1 million were recorded on these transactions for the three months and twelve months ended December 31, 2015 compared to pre-tax losses of $5 and $34 million, respectively, in 2014 and are included in loss on extinguishment of debt in the accompanying Consolidated Statements of Income.

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

On April 8, 2015, LMGI increased its commercial paper program from $750 million to $1 billion. There was no commercial paper outstanding at December 31, 2015.

On March 5, 2015, LMGI amended and restated its unsecured revolving credit facility from $750 million to $1 billion with an expiration date of March 5, 2020. This facility backs the Company's commercial paper program that is guaranteed by LMIC. To date, no funds have been borrowed under the facility.

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

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

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, 2015, all of the outstanding Federal Home Loan Bank borrowings are fully collateralized.

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

***Interest Expense***

Consolidated interest expense for the three and twelve months ended December 31, 2015 was $109 million and $438 million, respectively, no change and an increase of $19 million over the same periods in 2014. The increases in interest expense reflect the new debt issuances in 2014, partially offset by debt repurchases and maturities.

***Holding Company Liquidity and Capital Resources***

The Company conducts substantially all of its operations through its wholly owned insurance and service company subsidiaries, and therefore is primarily dependent on dividends, distributions, loans or other payments of funds from these entities to meet its current and future obligations. However, the subsidiaries are separate and distinct legal entities and have no obligation to make funds available to the Company, whether in the form of loans, dividends or other distributions. As of December 31, 2015, the Company, through its downstream subsidiary LMGI, had $6.313 billion of debt outstanding, excluding discount.

The insurance subsidiaries' ability to pay dividends on preferred or common stock is restricted under applicable insurance laws and regulations and may be paid only from unassigned surplus. Under the insurance laws of the domiciliary states of the insurance subsidiaries, an insurer may make an ordinary dividend payment if its surplus as regards policyholders, following such dividend, is reasonable in relation to its outstanding liabilities, is adequate to meet its financial needs, and does not exceed the insurer's unassigned surplus. However, no insurer may pay an extraordinary dividend without the approval or non-disapproval of the domiciliary insurance regulatory authority. Insurance subsidiaries owned directly by LMGI are LMIC, Liberty Mutual Personal Insurance Company ("LMPICO"), LMFIC and EICOW. Under the insurance laws of Massachusetts, the domiciliary state of LMIC and LMPICO, 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 or merger of LMIC, LMPICO, LMFIC or EICOW to a different domiciliary state.

The authorized control level risk-based capital (as of December 31, 2015) and 2016 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** | **2015** | **2014** | **2016** | **2015** |
| LMIC | 497% | 514% | $1,531 | $65 |
| LMFIC | 518% | 485% | $139 | $15 |
| EICOW | 512% | 467% | $151 | - |

[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, 2015. Available dividend capacity as of December 31, 2015 is calculated as 2016 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, 2015, LCS recorded $72 million and $307 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 $18.687 billion and $19.180 billion at December 31, 2015 and December 31, 2014, respectively. The decrease in surplus primarily reflects affiliated unrealized losses of $1.577 billion, a reduction to other changes in surplus of $485 million and unaffiliated unrealized losses of $464 million, partially offset by net income of $2.033 billion (the sum of earnings from the Company's 56 domestic property-casualty insurance companies and dividends from subsidiaries). Other changes in surplus is primarily driven by goodwill amortization expense, non-admitted assets, foreign exchange and dividends to stockholders, partially offset by non-admitted goodwill and net deferred tax assets.

## CRITICAL ACCOUNTING POLICIES

### Critical Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The Company's principal estimates include (1) unpaid claims and claim adjustment expense reserves, including asbestos and environmental liability reserves and loss sensitive premium attributable to prior years, (2) reinsurance recoverables and associated uncollectible allowance, (3) fair value determination and other-than-temporary impairments of the investment portfolio, (4) recoverability of deferred acquisition costs, (5) valuation of goodwill and intangible assets, (6) deferred income tax valuation allowance, and (7) pension and postretirement benefit obligations.

While the amounts included in the accompanying Consolidated Financial Statements reflect management's best estimates and assumptions, these amounts ultimately could vary.

### Adoption of New Accounting Standards

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

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

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

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

**Future Adoption of New Accounting Standards**

The Company will adopt the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"). This ASU was issued to clarify the principles for recognizing revenue, however, insurance contracts and financial instrument transactions are not within the scope of this guidance. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers*, which deferred the effective date of ASU 2014-09 by one year. Accordingly, ASU 2014-09 is effective for public business entities for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. For all other entities, ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. The Company is currently evaluating the impact the adoption of ASU 2014-09 is expected to have on the Company's financial statements.

The Company will adopt the FASB issued ASU 2015-02, *Amendments to the Consolidation Analysis* ("ASU 2015-02"). This guidance is aimed at asset managers, all reporting entities involved with limited partnerships or similar entities will have to re-evaluate these entities for consolidation and revise their documentation. In some cases, consolidation conclusions will change. In other cases, reporting entities will need to provide additional disclosures about entities that currently aren't considered VIEs but will be considered VIEs under the new guidance when they have a variable interest in those VIEs. Regardless of whether conclusions change or additional disclosure requirements are triggered, reporting entities will need to re-evaluate limited partnerships or similar entities for consolidation and revise their documentation. ASU 2015-02 is effective for public business entities for fiscal years, for interim periods within those fiscal years, beginning after December 15, 2015. For all other entities, ASU 2015-02 is effective for fiscal years beginning after December 15, 2016, and for interim periods within fiscal years beginning after December 15, 2017. The adoption of ASU 2015-02 is not expected to have an effect on the Company's results of operations and financial position, but changes to the Company's disclosures on variable interest entities will likely be required.

The Company will adopt the FASB issued ASU 2015-03, *Interest – Imputation of Interest – Simplifying the Presentation of Debt Issuance Costs* ("ASU 2015-03"). This guidance requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Prior to the issuance of this standard, debt issuance costs were required to be presented in the balance sheet as an asset. ASU 2015-03 should be applied on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect period-specific effects of applying the new guidance. ASU 2015-03 is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. For all other entities, this ASU is effective for fiscal years beginning after December 31, 2015, and for interim periods within fiscal years beginning after December 31, 2016. The adoption of ASU 2015-03 is not expected to have a material impact on the Company's financial statements.

The Company will adopt the FASB issued ASU 2015-09, *Disclosures about Short-Duration Contracts* ("ASU 2015-09"). The amendments apply to all insurance entities that issue short-duration contracts as defined in ASC 944, *Financial Services – Insurance.* The disclosures required by this ASU are aimed at providing the users of the financial statements with more transparent information about initial claim estimates and subsequent adjustments to those estimates, methodologies and judgments in estimating claims, and the timing, frequency and severity of claims. The new disclosures will require the accumulation and reporting of new and different groupings of data by insurers for U.S. GAAP reporting from what is currently captured for U.S. statutory and other reporting purposes. For public business entities, the amendments in ASU 2015-09 are effective for annual periods beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016. For all other entities, the amendments of this ASU are effective for annual periods beginning after December 15, 2016, and interim periods within annual periods beginning after December 15, 2017. The adoption of ASU 2015-09 will not have an effect on the Company's results of operations and financial position, but changes to the Company's disclosures will likely be required.

The Company will adopt the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01"). This guidance requires equity investments (excluding those accounted for under the equity method or those that result in consolidation) to be measured at fair value, with changes in fair value recognized in net income. ASU 2016-01 is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. For all other entities, ASU 2016-01 is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The adoption of ASU 2016-01 is expected to have a material impact on the Company's financial statements.

The Company will adopt FASB issued ASU 2016-02, *Leases (Topic 842): Section A - Leases, Section B - Conforming Amendments Related to Leases and Section C - Background Information and Basis for Conclusions* ("ASU 2016-02"). ASU 2016-02 intends to improve financial reporting about leasing transactions. The new standard affects all entities that lease assets such as real estate, airplanes and manufacturing equipment. ASU 2016-02 will require entities that lease assets, referred to as "lessees", to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. ASU 2016-02 is effective for public business entities for fiscal years, and interim period within those fiscal years, beginning after December 15, 2018. For all other entities, ASU 2016-02 is effective for fiscal years, beginning after December 15, 2019 and for interim periods within fiscal years beginning after December 15, 2020. The Company is currently evaluating the impact the adoption of ASU 2016-02 is expected to have on the Company's financial statements.

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

**Venezuela Deconsolidation and Discontinued Operations**

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

The Company's Venezuelan operations are classified as discontinued operations in the Consolidated Financial Statements. For further detail, see the Consolidated Results of Operations section.

**Unpaid Claims and Claim Adjustment Expenses**

Reserves for property-casualty unpaid claims and claim adjustment expenses were $49.323 billion and $49.970 billion as of December 31, 2015 and December 31, 2014, respectively.

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

Establishing loss reserves, including loss reserves for catastrophic events that have occurred, is an estimation process. Many factors can ultimately affect the final settlement of a claim and, therefore, the necessary reserve. Changes in the law, results of litigation, medical costs, the costs of repair materials, and labor rates can all affect ultimate claim costs. In addition, time can be a critical part of reserving

determinations since the longer the span between the incidence of a loss and the payment or settlement of the claim, the more variable the ultimate settlement can be. Accordingly, "short-tail" claims, such as property damage claims, tend to be easier to estimate than "long-tail" claims, such as workers compensation or general liability claims.

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

**Asbestos and Environmental**

The Company's A&E reserves for unpaid claims and claim adjustment expenses, net of reinsurance before NICO and including uncollectible reinsurance, were $952 million and $1.225 billion as of December 31, 2015 and December 31, 2014, respectively.

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

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

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

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

**Reinsurance Recoverables**

The Company reported reinsurance recoverables of $13.575 billion and $13.979 billion at December 31, 2015 and December 31, 2014, respectively, net of allowance for doubtful accounts of $131 million and $149 million, respectively. Included in these balances are $486 million and $548 million of paid recoverables and $13.220 billion and $13.580 billion of unpaid recoverables (including retroactive reinsurance), respectively.

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured business. The Company evaluates and monitors the financial condition of its

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

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

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

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

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

| Amounts ceded under NICO Reinsurance Transaction | Twelve Months Ended December 31, 2015 | Twelve Months Ended December 31, 2014 |
|---|---|---|
| Unrecognized reinsurance benefit related to original transaction loss at the beginning of the period | $43 | $128 |
| A&E unfavorable loss development | 5 | 111 |
| Workers compensation favorable loss development | (21) | (26) |
| Total amounts ceded under NICO Reinsurance Transaction | (16) | 85 |
| Retroactive reinsurance reductions/(benefits) recognized into income | 16 | (85) |
| Pre-tax impact of unrecognized deferred retroactive reinsurance benefit | - | - |
| Unrecognized reinsurance benefit related to original transaction loss at the end of the period | $59 | $43 |

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

The Company'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 96% and 93% of the Company's reinsurance recoverable balance, net of collateral held and including voluntary and involuntary pools and associations, was from reinsurers rated A- or better from A.M. Best and Standard & Poor's, respectively, at December 31, 2015. Collateral held against outstanding gross reinsurance recoverable balances was $5.913 billion and $6.632 billion at December 31, 2015 and December 31, 2014, respectively.

The remaining 4% and 7% of the Company's net reinsurance recoverable balance is well diversified. No single reinsurer rated B++ or below by A.M. Best or below A- by Standard & Poor's accounts for more than 2% of GAAP equity. In addition, the average net reinsurance recoverable balance from individual reinsurers rated below A- or not rated by A.M. Best and Standard & Poor's was approximately $1 million as of December 31, 2015.

The Company has an aggregate stop loss program covering substantially all of Commercial Insurance's voluntary workers compensation business from the fourth quarter 2000 through the fourth quarter 2002 accident year periods. A significant portion of the consideration was retained on a "funds held" basis and interest is credited on the balance at an average rate of 8.5% annually. Under the contract, losses in excess of a specified loss ratio are reinsured up to a maximum loss ratio and were accounted for as prospective reinsurance at inception. However, due to a material contract change at the January 1, 2002 renewal, any premium and loss activity subsequent to December 31, 2001 is accounted for as retroactive reinsurance for coverage provided from the fourth quarter 2000 through the fourth quarter 2001 covered accident year periods.

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

As of December 31, 2015, and 2014, deferred gains were $7 million and $8 million, respectively, and are included in other liabilities within the accompanying Consolidated Balance Sheets. Interest credited to the funds held balances for the years ended December 31, 2015 and 2014 was $2 million for both years. Deferred gain amortization was $2 million and $1 million for the years ended December 31, 2015 and 2014, respectively. Reinsurance recoverables related to these transactions, including experience related profit accruals, were $55 million and $64 million as of December 31, 2015 and 2014, respectively.

**Impairment Losses on Investments**

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

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

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

**Variable Interest Entities**

The Company invests in limited partnerships and other entities subject to VIE analysis under the VIE subsections of ASC 810, *Consolidation*. The Company analyzes each investment to determine whether it is a VIE, and if so, whether the Company is the primary beneficiary or a significant interest holder based on a qualitative and quantitative assessment. The Company evaluates the design of the entity, the risks to which the entity was designed to expose the variable interest holder and the extent of the Company's control of and variable interest in the VIE. As of December 31, 2015, the Company has determined that it was the primary beneficiary of two VIEs in the low-income housing tax credit sector, and as such, these VIEs were 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, 2015 and December 31, 2014 were immaterial to the Company.

The Company has variable interests in VIEs for which it is not the primary beneficiary and accounts for these VIEs under the equity method in accordance with ASC 323, *Investments – Equity Method and Joint Ventures*. The 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. The net carrying value of non-consolidated VIEs in which the Company has a variable interest was $1.719 billion and $1.826 billion as of December 31, 2015 and 2014, respectively and the Company's maximum exposure to loss was $2.487 billion and $2.603 billion as of December 31, 2015 and 2014, respectively. The assets are included in other investments in the accompanying consolidated balance sheets. Maximum exposure to loss includes the carrying value and unfunded commitment of the VIE. There is no recourse provision to the general credit of the Company for any VIE beyond the full amount of the Company's loss exposure.

**Deferred Acquisition Costs**

Total deferred acquisition costs were $3.164 billion and $3.001 billion as of December 31, 2015 and December 31, 2014, respectively. Deferred acquisition costs are costs that are directly related to the acquisition or renewal of insurance contracts. All other acquisition related costs, including market research, training, administration, unsuccessful acquisition or renewal efforts, and product development, are charged to expense as incurred. Deferred acquisition costs are reviewed annually for recoverability.

Investment income is considered in the recoverability assessment. For short-duration insurance contracts, acquisition costs include commissions, underwriting expenses, and premium taxes and assessments. For long-duration insurance contracts, these costs include first year commissions in excess of annual renewal commissions and variable sales and underwriting expenses.

**Goodwill**

Goodwill assets were $4.758 billion and $4.834 billion as of December 31, 2015, and December 31, 2014, respectively. Goodwill is tested for impairment at least annually using either a qualitative or a quantitative process. Election of the approach can be made at the reporting unit level. The Company has determined that each of its SBUs is a reporting unit. The reporting unit has the option to skip the qualitative test and move directly to completion of the quantitative process.

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

In August 31, 2015, the Company utilized a qualitative test in accordance with its accounting policy for all reporting units except for Liberty International, for which a quantitative test was being utilized due to the Venezuelan deconsolidation recognized during the year. There were no goodwill impairments recognized in 2015 or 2014.

**Deferred Income Taxes**

The net deferred tax asset was $795 million and $575 million as of December 31, 2015 and December 31, 2014, net of a valuation allowance of $106 million and $138 million, respectively. Prior period amounts have been restated to reflect the 2015 adoption of ASU 2014-01 related to qualified affordable housing projects. The net increase in the Company's net deferred income tax asset is primarily due to changes in net unrealized gains and losses on investments offset by the utilization of net operating losses. The decrease in the valuation allowance is primarily due to currency translation and revised income projections for certain foreign subsidiaries. Management believes it is more likely than not that the Company's net deferred income tax asset will be realized based upon the Company's ability and the likelihood of generating future taxable income.

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

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

| | |
|---|---|
| Balance at December 31, 2014 | $182 |
| Additions based on tax positions related to current year | 42 |
| Additions for tax positions of prior years | 191 |
| Reductions for tax positions of prior years | (152) |
| Settlements | (3) |
| Translation | (11) |
| Balance at December 31, 2015 | $249 |

Included in the tabular roll forward of unrecognized tax benefits is interest and penalties in the amount of $34 million and $51 million as of December 31, 2015 and December 31, 2014, respectively.

Included in the balance at December 31, 2015, is $62 million related to tax positions that would impact the effective tax rate.

The Company recognizes interest and penalties related to unrecognized tax benefits in Federal, state, and foreign income tax expense. For the three months ended December 31, 2015 and 2014, the Company recognized ($33) million and ($1) million of interest and penalties in each period. For the years ended December 31, 2015 and 2014, the Company recognized ($30) million and ($36) million of interest and penalties, respectively. The Company had $31 million and $59 million of interest and penalties accrued as of December 31, 2015 and December 31, 2014, respectively.

The IRS has completed its review of the Company's United States Federal income tax returns through the 2007 tax year and is currently reviewing income tax returns for the 2008 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 $210 million within the next twelve months as a result of potential settlements with the IRS for prior years.

**Pension and Postretirement Benefit Obligations**

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

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

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

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. The discount rate assumption used to determine the benefit obligations was based on a yield curve approach where the cash flows related to the benefit plans’ liability stream were discounted at an interest rate specifically applicable to the timing of the cash flows. Prior to December 31, 2015, the process calculated the present value of these cash flows and determined the weighted average discount rate that produced the same present value of the future cash flows. The Company examines the portfolio of bonds taken into account for the yield curve determination in order to confirm the portfolio would provide the cash flows necessary to settle the Company's projected benefit payments. Effective December 31, 2015, the discount rate assumption used to determine the benefit obligations is based on the yield curve where the cash flows related to the benefit plans’ liability stream are discounted using spot rates specifically applicable to the timing of the cash flows of each Plan. The spot rate change, which is accounted for as a change in estimate, has no impact on the pension benefit obligation as of December 31, 2015 or net periodic benefit costs recorded for the year.

In choosing the expected long-term rate of return on plan assets, the Company’s Retirement Board considered the historical returns of equity and fixed income markets in conjunction with current economic and financial market conditions.

**About the Company**

Boston-based LMHC, the parent corporation of the Liberty Mutual Insurance group of entities, is a diversified global insurer and third largest property and casualty insurer in the U.S. based on 2014 direct written premium. The Company also ranks 78th on the Fortune 100 list of largest corporations in the U.S. based on 2014 revenue. As of December 31, 2015, LMHC had $121.707 billion in consolidated assets, $102.466 billion in consolidated liabilities, and $37.617 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.libertymutualgroup.com/investors.