Liberty Mutual Holding Company Inc.

First Quarter 2012

Consolidated Financial Statements

Liberty Mutual Holding Company Inc.

Consolidated Statements of Income

(dollars in millions)

(unaudited)

	Three Months Ended March 31,	
	2012	**2011**
Revenues		
Premiums earned	$ 7,727	$ 7,181
Net investment income	862	915
Fee and other revenues	243	209
Net realized gains	49	76
Total revenues	8,881	8,381
Claims, Benefits and Expenses		
Benefits, claims and claim adjustment expenses	5,630	5,398
Insurance operating costs and expenses	1,422	1,282
Amortization of deferred policy acquisition costs	1,039	1,007
Interest expense	104	113
Interest credited to policyholders	60	58
Total claims, benefits and expenses	8,255	7,858
Loss on extinguishment of debt	(15)	-
Income before income tax expense and non-controlling interest	611	523
Income tax expense	155	156
Consolidated net income	456	367
Less: Net (loss) income attributable to non-controlling interest	(3)	3
Net income attributable to Liberty Mutual Holding Company Inc.	$ 459	$ 364

Net Realized Gains		
Other-than-temporary impairment losses:	**2012**	**2011**
Total other-than-temporary impairment losses	$ (21)	$ (14)
Change in portion of loss recognized in other comprehensive income	(4)	(4)
Other-than-temporary impairment losses	(25)	(18)
Other net realized gains	74	94
Net realized gains	$ 49	$ 76

See accompanying notes to the unaudited consolidated financial statements.

Liberty Mutual Holding Company Inc.

Consolidated Statements of Comprehensive Income

(dollars in millions)

(unaudited)

	Three Months Ended March 31,	
	2012	**2011**
Consolidated net income	$ 456	$ 367
Other comprehensive income, net of taxes:		
Unrealized gains on securities	392	143
Less: reclassification adjustment for gains and losses included in consolidated net income	(33)	(42)
Foreign currency translation and other adjustments	90	62
Other comprehensive income, net of taxes	449	163
Comprehensive income	$ 905	$ 530

See accompanying notes to the unaudited consolidated financial statements.

Liberty Mutual Holding Company Inc.

Consolidated Balance Sheets

(dollars in millions)

(unaudited)

	March 31, 2012	December 31, 2011
Assets:		
Investments		
Fixed maturities, available for sale, at fair value (amortized cost of $58,699 and $57,108)	$ 62,502	$ 60,576
Equity securities, available for sale, at fair value (cost of $2,052 and $1,942)	2,281	1,954
Short-term investments	273	201
Mortgage loans	1,197	1,196
Other investments	4,211	3,789
Total investments	70,464	67,716
Cash and cash equivalents	5,410	5,972
Premium and other receivables	9,128	8,840
Reinsurance recoverables	13,224	13,272
Deferred income taxes	656	815
Deferred acquisition costs	2,479	2,808
Goodwill	4,817	4,766
Prepaid reinsurance premiums	1,742	1,518
Separate account assets	352	4,087
Other assets	7,646	7,337
Total assets	$ 115,918	$ 117,131
Liabilities:		
Unpaid claims and claim adjustment expenses and future policy benefits:		
Property and casualty	$ 50,469	$ 50,228
Life	7,253	7,151
Other policyholder funds and benefits payable	4,122	4,061
Unearned premiums	15,641	14,987
Funds held under reinsurance treaties	1,267	1,277
Short-term and current maturities of long-term debt	293	205
Long-term debt	5,580	5,341
Separate account liabilities	352	4,087
Other liabilities	12,437	11,930
Total liabilities	97,414	99,267
Equity:		
Unassigned equity	16,240	16,057
Accumulated other comprehensive income	2,123	1,669
Total policyholders' equity	18,363	17,726
Non-controlling interest	141	138
Total equity	18,504	17,864
Total liabilities and equity	$ 115,918	$ 117,131

See accompanying notes to the unaudited consolidated financial statements.

Liberty Mutual Holding Company Inc.

Consolidated Statements of Changes in Total Equity

(dollars in millions)

(unaudited)

	Three Months Ended March 31,	
	2012	**2011**
Balance at beginning of the period	$ 17,864	$ 16,984
Cumulative effect of adoption of ASU 2010-26	(265)	(263)
Comprehensive income:		
Consolidated net income	456	367
Other comprehensive income, net of taxes	449	163
Total comprehensive income	905	530
Balance at end of the period	$ 18,504	$ 17,251

See accompanying notes to the unaudited consolidated financial statements.

Liberty Mutual Holding Company Inc.

Consolidated Statements of Cash Flows

(dollars in millions)

(unaudited)

	Three Months Ended March 31, 2012	2011
Cash flows from operating activities:		
Consolidated net income	$ 456	$ 367
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation and amortization	168	139
Realized gains	(49)	(76)
Undistributed private equity investment gains	(121)	(206)
Premium, other receivables, and reinsurance recoverables	(419)	(277)
Deferred acquisition costs	(111)	(97)
Liabilities for insurance reserves	593	847
Taxes payable, net of deferred	151	88
Other, net	(17)	(163)
Total adjustments	195	255
Net cash provided by operating activities	651	622
Cash flows from investing activities:		
Purchases of investments	(5,828)	(4,927)
Sales and maturities of investments	3,898	4,018
Property and equipment purchased, net	(324)	(211)
Cash acquired through acquisitions, net of cash paid	8	-
Other investing activities	167	127
Net cash used in investing activities	(2,079)	(993)
Cash flows from financing activities:		
Net activity in policyholder accounts	40	50
Debt financing, net	313	1
Net security lending activity and other financing actitivites	468	85
Net cash provided by financing activities	821	136
Effect of exchange rate changes on cash	45	6
Net decrease in cash and cash equivalents	(562)	(229)
Cash and cash equivalents, beginning of period	5,972	4,930
Cash and cash equivalents, end of period	$ 5,410	$ 4,701

See accompanying notes to the unaudited consolidated financial statements.

Liberty Mutual Holding Company Inc.

Notes to Consolidated Financial Statements

(dollars in millions)

(Unaudited)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Liberty Mutual Holding Company Inc., entities over which the Company exercises control including majority and wholly owned subsidiaries, and variable interest entities when the Company is deemed the primary beneficiary (collectively "LMHC" or the "Company"). The minority ownership of consolidated affiliates is represented in equity as noncontrolling interest. All material intercompany transactions and balances have been eliminated. Certain reclassifications have been made to the accompanying 2011 consolidated financial statements to conform with the 2012 presentation.

The accompanying consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company's principal estimates include (1) unpaid claims and claim adjustment expense reserves, including asbestos and environmental liability reserves and loss sensitive premium attributable to prior years, (2) reinsurance recoverables and associated uncollectible allowance, (3) fair value determination and other-than-temporary impairments of the investment portfolio, (4) deferred acquisition costs, (5) valuation of goodwill and intangible assets, and (6) deferred income tax valuation allowance. 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, 2012, the Company adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Update 2010-26, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts* ("ASU 2010-26"). This guidance, as codified in FASB Accounting Standards Codification ("ASC") 944, *Financial Services - Insurance*, specifies that acquisition costs should include only those 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, should be charged to expense as incurred. Either prospective or retrospective application is permitted. The Company elected to apply the guidance retrospectively, and the cumulative effect of the change in the method of accounting resulted in a decrease in the opening balance of total equity as of January 1, 2012 of $265, net of tax.

As of March 31, 2011, the accounting change resulted in increases (decreases) in deferred income taxes, deferred acquisition costs, unpaid claims and claim adjustment expenses and future policy benefits, other liabilities, unassigned equity, and accumulated other comprehensive income of $134, $(365), $34, $(4), $(267), and $6, respectively. For the period ended March 31, 2011, the accounting change resulted in (decreases) increases in benefits, claims and claim adjustment expenses, insurance operating costs and expenses, amortization of deferred policy acquisition costs, income tax expense, unrealized gains on securities, and foreign currency translation and other adjustments of $(1), $166, $(168), $1, $2, and $(2), respectively.

Effective January 1, 2012, the Company adopted ASU 2011-05, *Comprehensive Income* ("ASU 2011-05"). This guidance requires companies to present the total of comprehensive income, components of net income, and components of other comprehensive income ("OCI") in one continuous statement or in two separate but consecutive statements. The Company has elected to present this financial information in two separate, consecutive statements.

Future Adoption of New Accounting Standards

None of the accounting standards issued for the first quarter of 2012 will have a material impact on the Company.

Accumulated Other Comprehensive Income

Accumulated other comprehensive income consists principally of unrealized gains and losses on certain investments in debt and equity securities, foreign currency translation adjustments, and pension and postretirement liability adjustments.

The components of accumulated other comprehensive income, net of related deferred acquisition costs and taxes, are as follows:

	March 31, 2012	December 31, 2011
Unrealized gains on securities	$2,411	$2,055
Foreign currency translation & other adjustments	218	137
Accumulated pension liability adjustments	(517)	(523)
Cumulative effect of adoption of ASU 2010-26	11	-
Accumulated other comprehensive income	$2,123	$1,669

(2) ACQUISITIONS AND DISPOSITIONS

Effective March 28, 2012, the Company completed the acquisition of the Russian insurance company KIT Finance Insurance for $39. The Company believes the acquisition provides the International strategic business unit ("SBU") the opportunity for continued diversification in the European market. The Company is in the process of finalizing the fair value of the acquired business; therefore, the allocation of the purchase price is subject to refinement.

During March 2012, the Company reached a definitive agreement to sell its wholly-owned subsidiary Liberty ART S.A. under the International SBU. Completion of the transaction is subject to regulatory approval.

(3) INVESTMENTS

The amortized cost, gross unrealized gains and losses and fair values of available for sale investments as of March 31, 2012 and December 31, 2011, are as follows:

March 31, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agency securities	$2,810	$258	$(1)	$3,067
Residential MBS	8,600	534	(33)	9,101
Commercial MBS	2,084	78	(3)	2,159
Other MBS and ABS	1,625	131	(2)	1,754
U.S. state and municipal	12,467	1,176	(18)	13,625
Corporate and other	25,632	1,731	(144)	27,219
Foreign government securities	5,481	170	(74)	5,577
Total fixed maturities	58,699	4,078	(275)	62,502
Common stock	1,618	338	(70)	1,886
Preferred stock	434	22	(61)	395
Total equity securities	2,052	360	(131)	2,281
Total securities available for sale	$60,751	$4,438	$(406)	$64,783

December 31, 2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agency securities	$3,044	$312	$ -	$3,356
Residential MBS	9,018	525	(46)	9,497
Commercial MBS	2,086	74	(3)	2,157
Other MBS and ABS	1,645	132	(2)	1,775
U.S. state and municipal	12,530	1,159	(24)	13,665
Corporate and other	23,978	1,596	(319)	25,255
Foreign government securities	4,807	158	(94)	4,871
Total fixed maturities	57,108	3,956	(488)	60,576
Common stock	1,510	235	(137)	1,608
Preferred stock	432	17	(103)	346
Total equity securities	1,942	252	(240)	1,954
Total securities available for sale	$59,050	$4,208	$(728)	$62,530

Of the $1,886 and $1,608 of common stock as of March 31, 2012 and December 31, 2011, respectively, $298 and $271, respectively, relates to securities associated with non-guaranteed unit-linked products where the policyholder bears the investment risk.

The fair value of fixed maturities as of March 31, 2012 and December 31, 2011, by contractual maturity are as follows:

Due to mature:	As of March 31, 2012	As of December 31, 2011
One year or less	$2,953	$2,847
Over one year through five years	18,847	17,738
Over five years through ten years	15,704	14,489
Over ten years	11,984	12,073
MBS and ABS of government and corporate agencies	13,014	13,429
Total fixed maturities	$62,502	$60,576

The following table summarizes the Company's gross realized gains and losses by asset type for the three months ended March 31, 2012 and 2011, respectively:

Components of Net Realized Gains	2012	2011
Fixed maturities:		
Gross realized gains	$65	$54
Gross realized losses	(26)	(29)
Equities:		
Gross realized gains	27	41
Gross realized losses	(15)	(1)
Other:		
Gross realized gains	1	19
Gross realized losses	(3)	(8)
Total net realized gains	$49	$76

The following table summarizes the Company's unrealized losses and fair value by security type and by duration that individual securities have been in an unrealized loss position as of March 31, 2012, that are not deemed to be other-than-temporarily impaired:

	Less Than 12 Months		12 Months or Longer	
	Unrealized Losses	Fair Value of Investments with Unrealized Losses	Unrealized Losses	Fair Value of Investments with Unrealized Losses
U.S. government and agency securities	$(1)	$145	$ -	$ -
Residential MBS	(3)	158	(30)	326
Commercial MBS	(2)	221	(1)	39
Other MBS and ABS	-	43	(2)	11
U.S. state and municipal	(4)	169	(14)	75
Corporate and other	(63)	2,440	(81)	783
Foreign government securities	(10)	634	(64)	567
Total fixed maturities	(83)	3,810	(192)	1,801
Common stock	(44)	417	(26)	147
Preferred stock	(1)	4	(60)	269
Total equities	(45)	421	(86)	416
Total	$(128)	$4,231	$(278)	$2,217

Unrealized losses decreased from $728 as of December 31, 2011 to $406 as of March 31, 2012 primarily due to improvement in the equity markets and the tightening of credit spreads. Unrealized losses less than 12 months decreased from $311 at December 31, 2011 to $128 as of March 31, 2012. Unrealized losses 12 months or longer decreased from $417 as of December 31, 2011 to $278 as of March 31, 2012. As of March 31, 2012, there were 779 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 income securities before they recover their fair value.

The Company reviews fixed income, public equity securities and private equity and private equity co-investment securities for impairment on a quarterly basis. Securities are reviewed for both quantitative and qualitative considerations including, but not limited to: (a) the extent of the decline in fair value below book value, (b) the duration of the decline, (c) significant adverse changes in the financial condition or near term prospects of the investment or issuer, (d) significant change in the business climate or credit ratings of the issuer, (e) general market conditions and volatility, (f) industry factors, and (g) the past impairment of the security holding or the issuer. For fixed maturity securities that the Company does not intend to sell or for which it is more likely than not that the Company would not be required to sell before an anticipated recovery in value, the Company separates impairments into credit loss and non-credit loss components. The determination of the credit loss component of the impairment charge is based on the Company's best estimate of the present value of the cash flows expected to be collected from the debt security compared to its amortized cost and is reported as part of net realized gains (losses). 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 debt 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) 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 debt securities and certain preferred equity securities) or the Company does not have the intent and ability to hold certain equity securities for a period of time that is sufficient to allow for any anticipated recovery in fair value.

Subsequent to March 31, 2012, the Company has not recognized any additional material other-than-temporary impairments.

Variable Interest Entities

The Company invests in energy, private equity, and real estate limited partnerships and other entities subject to variable interest entity ("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 March 31, 2012, the Company has determined that it is the primary beneficiary of one VIE in the energy investment sector, and as such, this VIE has been consolidated in the Company's financial statements. The carrying value of assets and liabilities, and the Company's maximum exposure to loss of the consolidated VIE is 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. For these VIEs, the Company absorbs a portion, but not majority, of this variability. The carrying value of assets was $288 and $250 as of March 31, 2012 and December 31, 2011, respectively, and the Company's maximum exposure to loss was $450 and $309 as of March 31, 2012 and December 31, 2011, respectively, for unconsolidated VIEs in which the Company has a significant variable interest. The assets are included in other investments on the accompanying consolidated balance sheets. Maximum exposure to loss includes the carrying value and unfunded commitment of the 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.

Derivatives

The Company may enter into a derivative transaction through domestic insurance subsidiaries or non-insurance subsidiaries. Each domestic insurance subsidiary that has entered into derivative transactions has a Derivative Use Policy, which has been approved by its board of directors, and its derivative transactions are only entered into pursuant to such policy. Derivative transactions entered into by a non-insurance subsidiary are only entered into after approval by its board of directors.

(4) REINSURANCE

In the ordinary course of business, the Company assumes reinsurance and also cedes reinsurance to other insurers to reduce overall risk, including exposure to large losses and catastrophic events. The Company is also a member of various involuntary pools and associations and serves as a servicing carrier for residual market organizations. The Company remains contingently liable in the event reinsurers are unable to meet their obligations for paid and unpaid reinsurance recoverables and unearned premiums ceded under reinsurance agreements.

The Company reported reinsurance recoverables of $13,224 and $13,272 at March 31, 2012 and December 31, 2011, respectively, net of allowance for doubtful accounts of $294 and $326, respectively. Included in these balances are $869 and $941 of paid recoverables and $12,649 and $12,657 of unpaid recoverables, respectively.

The Company's reinsurance recoverables from Nationwide Indemnity Company have been fully guaranteed by its parent, Nationwide Mutual Insurance Company, which has a financial strength rating of A+ from Standard & Poor's. The reinsurance recoverables from state mandated involuntary pools and associations 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 of the pool participants.

As part of its reinsurance security oversight, the Company has established a Reinsurance Credit Committee that meets quarterly to monitor and review the credit quality of the existing reinsurance portfolio, discuss emerging trends in the reinsurance marketplace, and ensure that the current portfolio of reinsurance is in compliance with the committee's security standards. The committee is directly responsible for establishing the rating, collateral, and diversification requirements governing the Company's purchase and use of reinsurance.

Approximately 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 Standard & Poor's as of March 31, 2012. Collateral held against outstanding gross reinsurance recoverable balances was $4,792 and $4,699 as of March 31, 2012 and December 31, 2011, respectively.

The remaining 7% of the Company's net reinsurance recoverable balance is well diversified. No single reinsurer rated below A- by Standard & Poor's accounts for more than 2% of total equity. In addition, the average net reinsurance recoverable balance from individual reinsurers rated below A- or not rated by Standard & Poor's was approximately $1 as of March 31, 2012.

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 accompanying consolidated statements of income.

The Company is party to retroactive reinsurance arrangements where a significant portion of the consideration was retained on a "funds held" basis and interest is credited on the balance at a weighted average rate of approximately 7.8% annually. These contracts resulted in deferred gains (including experience related profit accruals of $113) that are amortized into income using the effective interest method over the estimated settlement periods. As of March 31, 2012, and December 31, 2011, deferred gains related to these reinsurance arrangements were $308 and $315, respectively, and are included in other liabilities within the accompanying consolidated balance sheets. Interest credited to the funds held balances for the three months ended March 31, 2012 and 2011 was $20 and $30, respectively. Deferred gain amortization was $10 and $99 for the three months ended March 31, 2012 and 2011, respectively. Reinsurance recoverables related to these transactions, including experience related profit accruals, were $1,211 and $1,217 as of March 31, 2012, and December 31, 2011, respectively. Effective March 31, 2011, the Company commuted two workers compensation excess of loss retroactive reinsurance agreements. The commutations, which represent the complete and final settlement and discharge of all present and future obligations between the parties arising out of the agreements, resulted in a gain to the Company of $54, net of tax.

Additionally, the Company has an aggregate stop loss program covering substantially all of Commercial Markets voluntary workers compensation business from the fourth quarter 2000 through the fourth quarter 2002 accident year periods. Under these contracts, 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 retroactive portion of the aggregate stop loss program is included in the amounts disclosed in the preceding paragraph.

In 2009, the Company entered into a multi-year property catastrophe agreement with Mystic Re II Ltd. ("Mystic II"), a Cayman Islands domiciled reinsurer, to provide $225 of reinsurance coverage for the Company and its affiliates in the event of a U.S. hurricane or earthquake event. The reinsurance agreement is collateralized. Such collateral is provided by Mystic II using proceeds from the issuance of certain catastrophe bonds. The reinsurance agreement provides coverage for hurricane or earthquake-related losses based on industry insured losses as reported by Property Claim Services along with company specific losses on the event. The 2009 reinsurance agreement terminated on March 13, 2012. Since no recoveries were recorded under this program, the associated collateral was released.

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

(5) DEBT OUTSTANDING

Debt outstanding as of March 31, 2012 and December 31, 2011 includes the following:

Short-term and current maturities of long-term debt:	**March 31, 2012**	**December 31, 2011**
Commercial paper	$88	$ -
Current maturities of long-term debt	205	205
Total short-term and current maturities of long-term debt	$293	$205

Long-term debt:	**March 31, 2012**	**December 31, 2011**
8.00% Notes, due 2013	$260	$260
7.86% Medium Term Notes, due 2013	25	25
5.75% Notes, due 2014	500	500
7.30% Notes, due 2014	200	200
5.588% Mortgage Loan due 2015	48	48
6.70% Notes, due 2016	249	249
7.00% Junior Subordinated Notes, due 2067[1]	300	300
5.00% Notes, due 2021	600	600
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% - 4.24% Federal Home Loan Bank Borrowings due 2032	277	-
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]	942	981
7.697% Surplus Notes, due 2097	435	435
	5,627	5,389
Unamortized discount	(47)	(48)
Total long-term debt	$5,580	$5,341

[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.

Debt Transactions and In-Force Credit Facilities

During the three month period ending March 31, 2012 and 2011, the Company repurchased $39 and $0, respectively, of the 10.75% Junior Subordinated Notes due 2088. Pre-tax losses of $15 and $0, respectively, were recorded on these transactions and are included in loss on extinguishment of debt in the accompanying consolidated statements of income.

Liberty Mutual Insurance Company ("LMIC"), Peerless Insurance Company ("PIC"), and Liberty Life Assurance Company of Boston ("LLAC") are members of the Federal Home Loan Bank of Boston. Liberty Mutual Fire Insurance Company ("LMFIC") is a member of the Federal Home Loan Bank of Chicago. Membership provides the Company with access to a secured asset-based borrowing with loan maturities of up to 30 years. LMFIC's membership was effective January 11, 2012. On March 21, 2012, LMFIC borrowed $150 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 at a rate of 4.24% with a maturity date of March 23, 2032 and $23 at a rate of 4.25% with a maturity date of April 2, 2032, respectively.

Liberty Mutual Insurance Europe Limited's 10 million pounds sterling overdraft facility expired on March 31, 2012.

On October 24, 2011, Liberty Mutual Agency Corporation and Ohio Casualty Corporation terminated their $200 unsecured three-year revolving credit facility with a syndicate of lenders.

As of March 31, 2012, Liberty Mutual Group Inc. ("LMGI") had a five-year $750 unsecured revolving credit facility which terminates on October 17, 2016. To date, no funds have been borrowed under the facility.

The Company places commercial paper through a program issued by LMGI and guaranteed by LMIC. Effective October 17, 2011, the $400 commercial paper program was increased to $750 and is backed by the five-year $750 unsecured revolving credit facility. As of March 31, 2012, there was $88 of commercial paper outstanding.

On May 18, 2011, LMGI issued Senior Notes due 2021 (the "2021 Notes") with a face amount of $600. Interest is payable semi-annually at a fixed rate of 5.00%. The 2021 Notes mature on June 1, 2021.

On March 21, 2011, the Company announced a tender offer for its 7.50% Senior Notes due 2036 (the "2036 Notes"). On April 15, 2011, the Company paid approximately $449 in connection with such tender offer, including approximately $5 in accrued and unpaid interest, to holders of the 2036 Notes tendered in such tender offer. Subsequent to the closing of the tender offer, the Company made an open market purchase of $5 aggregate principal amount of the 2036 Notes. As a result of these transactions, the Company recorded a $40 pre-tax loss in 2011. After completion of the tender offer and subsequent open market purchase, $19 aggregate principal amount of the 2036 Notes remains outstanding.

As of March 31, 2012, the Company has a $1,000 three-year committed repurchase agreement maturing in 2013. As of March 31, 2012, no borrowings were outstanding under the agreement.

Payments of interest and principal of the surplus notes are expressly subordinate to all policyholder claims and other obligations of LMIC. Accordingly, interest and principal payments are contingent upon prior approval of the Commissioner of Insurance of the Commonwealth of Massachusetts.

(6) ASBESTOS AND ENVIRONMENTAL

The Company's asbestos and environmental reserves for unpaid claims and claim adjustment expenses, net of reinsurance and including uncollectible reinsurance, were $1,283 and $1,332 as of March 31, 2012 and December 31, 2011, respectively.

In the third quarter of 2011, the Company completed ground-up asbestos and environmental reserve studies. The studies were completed by a multi-disciplined team of internal claims, legal, reinsurance and actuarial personnel, and they included all major segments of the Company's direct, assumed, and ceded asbestos and environmental claims. As part of the internal reviews, potential exposures of certain policyholders were individually evaluated using the Company's proprietary stochastic model, which is consistent with published actuarial papers on 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, types of injury, state jurisdictions, legal defenses, and reinsurance potential. The remaining policyholders (those with less potential exposure) were evaluated using aggregate methods that utilized information and experience specific to these insureds. The studies resulted in an increase to reserves of $338.

(7) INCOME TAXES

The income tax provision is calculated under the liability method. The Company recognizes deferred income tax assets and liabilities for the expected future tax effects attributable to temporary differences between the financial statement and tax return bases of assets and liabilities based on enacted tax rates and other provisions of the tax law. The effect of a change in tax laws or rates on deferred tax assets and liabilities is recognized in income in the period in which such change is enacted. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that all or some portion of the deferred tax assets will not be realized. Deferred tax positions are not established for adjustments arising from foreign operations whose earnings are considered to be permanently reinvested.

The Company's effective tax rate differs from the Federal statutory rate of 35% principally due to tax-exempt investment income.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Balance as of December 31, 2011	$ 332
Additions for tax positions of prior years	19
Settlements	(9)
Balance as of March 31, 2012	$ 342

Included in the tabular roll forward of unrecognized tax benefits is interest in the amount of $88 and $78 as of March 31, 2012 and December 31, 2011, respectively.

Included in the balance as of March 31, 2012 is $164 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 March 31, 2012 and 2011, the Company recognized approximately $10 and $4 of interest and penalties, respectively. The Company had approximately $92 and $82 of interest and penalties accrued as of March 31, 2012 and December 31, 2011, respectively.

The Company does not expect any material changes to the unrecognized tax benefits within 12 months of the reporting date.

The IRS has completed its review of the Company's federal income tax returns through the 1998 tax year and is currently reviewing income tax returns for the 1999 through 2009 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.

(8) BENEFIT PLANS

The net benefit costs for the three months ended March 31, 2012 and 2011, include the following components:

Three months ended March 31,	Pension Benefits		Supplemental Pension Benefits *		Postretirement Benefits	
	2012	2011	2012	2011	2012	2011
Components of net periodic benefit costs:						
Service costs	$30	$26	$2	$2	$5	$4
Interest costs	72	72	5	5	11	12
Expected return on plan assets	(71)	(70)	-	-	-	-
Amortization of unrecognized:						
Net loss (gain)	9	1	3	2	(2)	(1)
Prior service cost	(1)	1	-	-	(1)	(1)
Net transition (assets)/obligation	-	(1)	-	-	-	-
Net periodic benefit costs	$39	$29	$10	$9	$13	$14

* The Company sponsors non-qualified supplemental pension plans to restore to selected highly compensated employees the pension benefits to which they would be entitled 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 has contributed $2 to the qualified plans as of March 31, 2012 and expects to additionally contribute approximately $643.

(9) FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company primarily uses the market approach, which generally utilizes market transaction data for identical or similar instruments.

The hierarchy level assigned to each security in the Company's available for sale portfolio is based on the Company's assessment of the transparency and reliability of the inputs used in the valuation of each instrument at the measurement date. The highest priority is given to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Securities are classified based on the lowest level of input that is significant to the fair value measurement. The Company recognizes transfers between levels at the end of each reporting period. The three hierarchy levels are defined as follows:

- Level 1 — Valuations based on unadjusted quoted market prices in active markets for identical assets or liabilities that the Company has the ability to access.
- Level 2 — Valuations based on observable inputs (other than Level 1 prices), such as quoted prices for similar assets or liabilities at the measurement date, quoted prices in markets that are not active, or other inputs that are observable, either directly or indirectly.
- Level 3 — Valuations based on inputs that are unobservable and significant to the overall fair value measurement and involve management judgment. The unobservable inputs reflect the Company's own assumptions about the assumptions that market participants might use.

The availability of observable inputs can vary from financial instrument to financial instrument and is affected by a wide variety of factors, including, for example, the type of financial instrument, whether the financial instrument is new and not yet established in the marketplace, and other characteristics particular to the financial instrument. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires significantly more judgment. Accordingly, the degree of judgment exercised by management in determining fair value is greatest for instruments categorized in Level 3.

The Company used the following methods and assumptions in estimating the fair value of its financial instruments as well as the general classification of such financial instruments pursuant to the above fair value hierarchy:

Fixed Maturities

At each valuation date, the Company uses various valuation techniques to estimate the fair value of its fixed maturities portfolio. The primary method for valuing the Company's securities is through independent third-party valuation service providers. For positions where valuations are not available from independent third-party valuation service providers, the Company utilizes broker quotes and internal pricing methods to determine fair values. The Company obtains a single non-binding price quote from a broker familiar with the security who, similar to the Company's valuation service providers, may consider transactions or activity in similar securities, as applicable, among other information. The brokers providing price quotes are generally from the brokerage divisions of leading financial institutions with market making, underwriting and distribution expertise regarding the security subject to valuation. The evaluation and prioritization of these valuation sources is systematic and predetermined resulting in a single quote or price for each financial instrument. The following describes the techniques generally used to determine the fair value of the Company's fixed maturities by asset class:

U.S. government and agency securities

U.S. government and agency securities consist primarily of bonds issued by the U.S. Treasury and mortgage pass-through agencies such as the Federal Home Loan Bank, the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. As the fair values of the Company's U.S. Treasury securities are based on unadjusted market prices, they are classified within Level 1. The fair value of U.S. government agency securities is generally determined using observable market inputs that include quoted prices for identical or similar assets in markets that are not active, benchmark yields, reported trades, bids, offers and credit spreads. Accordingly, the fair value of U.S. government agency securities is classified within Level 2.

Mortgage-backed securities

The Company's portfolio of residential and commercial MBS are originated by both agencies and non-agencies, the majority of which are pass-through securities issued by U.S. government agencies. The fair value of MBS is generally determined using observable market inputs that include quoted prices for identical or similar assets in markets that are not active, benchmark yields, contractual cash flows, prepayment speeds, collateral performance and credit spreads. Accordingly, the fair value of MBS is primarily classified within Level 2.

Asset-backed securities

ABS include mostly investment-grade bonds backed by pools of loans with a variety of underlying collateral, including automobile loan receivables, credit card receivables, and collateralized loan obligation securities originated by a variety of financial institutions. The fair value of ABS is generally determined using observable market inputs that include quoted prices for identical or similar assets in markets that are not active, benchmark yields, contractual cash flows, prepayment speeds, collateral performance and credit spreads. Accordingly, the fair value of ABS is primarily classified within Level 2.

Municipals

The Company's municipal portfolio comprises bonds issued by U.S. domiciled state and municipal entities. The fair value of municipal securities is generally determined using observable market inputs that include quoted prices for identical or similar assets in markets that are not active, benchmark yields, broker quotes, issuer ratings, reported trades and credit spreads. Accordingly, the fair value of municipal securities is primarily classified within Level 2.

Corporate debt and other

Corporate debt securities consist primarily of investment-grade debt of a wide variety of corporate issuers and industries. The fair value of corporate and other securities is generally determined using observable market inputs that include quoted prices for identical or similar assets in markets that are not active, benchmark yields, new issuances, issuer ratings, reported trades of identical or comparable securities, bids, offers and credit spreads. Accordingly, the fair value of corporate and other securities is primarily classified within Level 2. In the event third-party vendor valuation is not available, prices are determined using non-binding price quotes from a broker familiar with the security. In this instance, the valuation inputs are generally unobservable and the fair value is classified within Level 3.

Foreign government securities

Foreign government securities comprise bonds issued by foreign governments and their agencies along with supranational organizations. The fair value of foreign government securities is generally determined using observable market inputs that include quoted prices for identical or similar assets in markets that are not active, benchmark yields, broker quotes, issuer ratings, reported trades of identical or comparable securities and credit spreads. Accordingly, the fair value of foreign government securities is primarily classified within Level 2.

Equity securities

Equity securities include common and preferred stocks. Common stocks with fair values based on quoted market prices in active markets are classified within Level 1. Common stocks with fair values determined using observable market inputs that include quoted prices for identical or similar assets in markets that are not active are classified within Level 2. The fair value of preferred stock is generally determined using observable market inputs that include quoted prices for identical or similar assets in markets that are not active. Accordingly, the fair value of preferred stock is primarily classified within Level 2.

Other investments

Other investments include primarily international loans, foreign cash deposits and equity investments in privately held businesses. International loans and cash deposits are primarily valued using quoted prices for similar instruments in active markets; these assets are categorized within Level 2 of the fair value hierarchy. Equity investments in privately held businesses are valued using internal management estimates; they are categorized within Level 3 of the hierarchy. Limited partnership and other equity method investments, which represent the remainder of the other investment balance on the accompanying consolidated balance sheet, are not subject to these disclosures and therefore are excluded from the below table.

Separate account assets

Separate account assets, which primarily consist of fixed maturity and equity securities, are measured based on the methodologies discussed above. The activity in separate account assets is offset by an equal amount for separate account liabilities, which results in a net zero impact for the Company.

Other assets

Other assets primarily consist of fixed maturities, short-term investments, and equity securities of captive companies sponsored by the Company. These assets are measured based on the methodology for individual securities as discussed above.

Life insurance obligations

Life insurance obligations include certain variable annuity contracts which contain guaranteed minimum income benefits that contain embedded derivatives and are bifurcated from the host contract and carried at fair value. The measurements on these embedded derivatives are computed on a recurring basis using assumptions predominately classified as Level 3 (significant unobservable) inputs.

While some inputs are observable in the market, such as risk free rates, volatility and historical equity returns, the underlying future policyholder behavior inputs are highly unobservable. These assumptions include mortality, lapse, and the underlying take-up rate with regard to annuitization.

The following tables summarize the Company's assets that are measured at fair value on a recurring basis as of March 31, 2012 and December 31, 2011:

	As of March 31, 2012			
Assets, at Fair Value	**Level 1**	**Level 2**	**Level 3**	**Total**
U.S. government and agency securities	$2,149	$902	$16	$3,067
Residential MBS	-	9,066	35	9,101
Commercial MBS	-	2,112	47	2,159
Other MBS and ABS	-	1,722	32	1,754
U.S. state and municipal	-	13,586	39	13,625
Corporate and other	-	26,539	680	27,219
Foreign government securities	-	5,070	507	5,577
Total fixed maturities, available for sale	2,149	58,997	1,356	62,502
Common stock	1,847	-	39	1,886
Preferred stock	-	379	16	395
Total equity securities, available for sale	1,847	379	55	2,281
Short-term investments	7	263	3	273
Other investments	-	137	131	268
Separate account assets	256	-	96	352
Other assets	7	32	27	66
Total assets	$4,266	$59,808	$1,668	$65,742
Liabilities, at Fair Value				
Life insurance obligations	$ -	$ -	$(148)	$(148)
Total liabilities	$ -	$ -	$(148)	$(148)

	As of December 31, 2011			
Assets, at Fair Value	**Level 1**	**Level 2**	**Level 3**	**Total**
U.S. government and agency securities	$2,376	$964	$16	$3,356
Residential MBS	-	9,433	64	9,497
Commercial MBS	-	2,152	5	2,157
Other MBS and ABS	-	1,763	12	1,775
U.S. state and municipal	-	13,646	19	13,665
Corporate and other	-	24,599	656	25,255
Foreign government securities	-	4,611	260	4,871
Total fixed maturities, available for sale	2,376	57,168	1,032	60,576
Common stock	1,579	3	26	1,608
Preferred stock	-	331	15	346
Total equity securities, available for sale	1,579	334	41	1,954
Short-term investments	7	193	1	201
Other investments	-	70	129	199
Separate account assets	1,686	2,227	174	4,087
Other assets	11	37	30	78
Total assets	$5,659	$60,029	$1,407	$67,095
Liabilities, at Fair Value				
Life insurance obligations	$ -	$ -	$(162)	$(162)
Total liabilities	$ -	$ -	$(162)	$(162)

The Company did not have significant transfers between Levels 1 and 2 for the three months ended March 31, 2012.

The following tables summarize the fair values of assets on a recurring basis classified as Level 3 within the fair value hierarchy:

	Balance January 1, 2012	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Purchases	Settlements	Sales and maturities[1]	Transfer In to Level 3	Transfer Out of Level 3	Balance March 31, 2012
U.S. government and agency securities	$16	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$16
Residential MBS	64	-	-	29	-	(22)	-	(36)	35
Commercial MBS	5	-	1	41	-	-	-	-	47
Other MBS and ABS	12	-	-	20	-	(1)	2	(1)	32
U.S. state and municipal	19	-	-	10	-	-	10	-	39
Corporate and other	656	-	13	23	-	(26)	21	(7)	680
Foreign government securities	260	-	1	58	-	(1)	200	(11)	507
Total fixed maturities	1,032	-	15	181	-	(50)	233	(55)	1,356
Common stock	26	-	-	13	-	-	-	-	39
Preferred stock	15	-	-	1	-	-	-	-	16
Total equity securities	41	-	-	14	-	-	-	-	55
Short-term investments	1	-	-	-	-	-	2	-	3
Other investments	129	-	(2)	4	-	-	-	-	131
Separate account assets	174	-	-	1	-	(89)	10	-	96
Other assets	30	(2)	-	-	(1)	-	-	-	27
Total assets	$1,407	$(2)	$13	$200	$(1)	$(139)	$245	$(55)	$1,668
Liabilities, at Fair Value									
Life insurance obligations	$(162)	$8	$ -	$ -	$6	$ -	$ -	$ -	$(148)
Total liabilities	$(162)	$8	$ -	$ -	$6	$ -	$ -	$ -	$(148)

[1]The assets of the Liberty Mutual Retirement Benefit Plan ("pension plan") were held in a group annuity contract with LLAC and held in certain separate accounts. LMGI, which is the pension plan sponsor, decided to restructure administration of the pension plan from the annuity contract structure to a trust structure using The Bank of New York Mellon as the trustee. Pursuant to this restructuring, the majority of the pension plan assets, including various limited partnership investments, have been transferred to the trust. The transition of LMGI's pension plan assets from the annuity contract to the trust is expected to be completed by the end of 2012. The $89 of sales and maturities in separate account assets represents this transaction.

	Balance January 1, 2011	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Purchases	Settlements	Sales and maturities	Transfer In to Level 3	Transfer Out of Level 3	Balance December 31, 2011
U.S. government and agency securities	$16	$ -	$2	$ -	$ -	$(3)	$1	$ -	$16
Residential MBS	179	-	5	242	-	(2)	-	(360)	64
Commercial MBS	20	-	2	10	-	-	1	(28)	5
Other MBS and ABS	14	-	1	11	-	(6)	24	(32)	12
U.S. state and municipal	14	-	-	12	-	(7)	-	-	19
Corporate and other	771	1	2	89	-	(124)	38	(121)	656
Foreign government securities	114	-	6	112	-	(13)	408	(367)	260
Total fixed maturities	1,128	1	18	476	-	(155)	472	(908)	1,032
Common stock	18	-	1	22	-	-	-	(15)	26
Preferred stock	4	-	-	10	-	-	1	-	15
Total equity securities	22	-	1	32	-	-	1	(15)	41
Short-term investments	3	-	-	5	-	(4)	1	(4)	1
Other investments	87	25	(20)	21	-	(114)	130	-	129
Separate account assets	161	14	(1)	47	-	(37)	5	(15)	174
Other assets	23	4	-	-	3	-	-	-	30
Total assets	$1,424	$44	$(2)	$581	$3	$(310)	$609	$(942)	$1,407
Liabilities, at Fair Value									
Life insurance obligations	$(149)	$(33)	$ -	$ -	$20	$ -	$ -	$ -	$(162)
Total liabilities	$(149)	$(33)	$ -	$ -	$20	$ -	$ -	$ -	$(162)

Transfers in and out of Level 3 were primarily due to re-evaluation of the observability of pricing inputs.

There were no material unrealized gains (losses) for the period included in earnings attributable to the fair value relating to assets and liabilities classified as Level 3 that are still held as of March 31, 2012.

For the three months ended March 31, 2012, there were no impairments recognized for items measured at fair value on a nonrecurring basis.

The Company has not applied ASC 820, *Fair Value Measurements and Disclosures*, to non-financial assets and liabilities.

(10) COMMITMENTS AND CONTINGENT LIABILITIES

Various lawsuits against the Company have arisen in the normal course of business. Contingent liabilities arising from litigation, income taxes, and other matters are not considered material in relation to the financial position of the Company.

The Company is currently in coverage litigation with Kentile Floors, Inc., a former manufacturer of floor tile products, some of which contained asbestos. In November 1992, Kentile filed a voluntary petition for bankruptcy relief under Chapter 11 (Reorganization) of the Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of New York, and Metex Manufacturing Corporation ("Metex") emerged from the Chapter 11 Bankruptcy proceeding as the "Reorganized Debtor." Metex claims it has rights to the policies issued to Kentile, but this issue has not yet been resolved by the bankruptcy court.

In 2008, certain excess insurers of Kentile initiated a declaratory judgment action against Kentile, Metex and the other insurers of Kentile, including the Company, in state court in New York seeking, among other relief, products coverage without aggregate limits from the Company. Settlement discussions are currently ongoing.

The Company intends to vigorously defend its position in this coverage litigation, including opposing any argument that the Kentile policies do not contain aggregate limits for products claims. Management believes that the ultimate liability, if any, to Metex will not be resolved for at least one year and very likely may not be known for several years. In the opinion of management, the outcome of

these pending matters is difficult to predict and an adverse outcome could have a material adverse effect on the Company's business, financial condition and results of operation.

As of March 31, 2012, the Company had unfunded commitments in traditional private equity partnerships, real estate, energy and other of $896, $466, $871, and $418, respectively. As of March 31, 2012, the Company had commitments to purchase various residential mortgage-backed securities at a cost and fair value of $103 and various corporate and municipal securities at a cost and fair value of $99.

(11) SUBSEQUENT EVENTS

Management has assessed material subsequent events through April 26, 2012, the date the financial statements were available to be issued.

On April 18, 2012, the Company announced the commencement of two tender offers. The first offer is a cash tender offer to purchase up to $350, subject to increase, of the aggregate principal amount of LMGI's 10.75% Series C Junior Subordinated Notes due 2088 and LMIC's 7.697% Surplus Notes due 2097, each at a purchase price determined in accordance with the procedures of a modified "Dutch Auction." The second offer is a cash tender offer by LMGI to purchase up to $350, subject to increase, of the aggregate principal amount of its 5.75% Senior Notes due 2014 and its 7.30% Senior Notes due 2014, each at a price determined by reference to a fixed spread above the bid-side yield on the applicable reference security (the "Waterfall Offer") and accepted in accordance with the acceptance priority level set forth in the tender documents. The Waterfall Offer is conditioned on LMGI issuing at least $350 aggregate principal amount of new senior notes. Unless extended or earlier terminated by the issuers, the tender offers will expire at 11:59 p.m., New York City time, on May 15, 2012.