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

Quarter Ended June 30, 2012

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 six months ended June 30, 2012 and 2011. 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, 2011 Audited Consolidated Financial Statements, June 30, 2012 Unaudited Consolidated Financial Statements and Second Quarter 2012 Financial Supplement located on the Company's Investor Relations website at www.libertymutual.com/investors. The Company's discussions related to net income are presented in conformity with U.S. generally accepted accounting principles ("GAAP") on an after-tax basis. All other discussions are presented on a pre-tax GAAP basis, unless otherwise noted. Further, the Company notes that it may make material information regarding the Company available to the public, from time to time, via the Company's Investor Relations website at www.libertymutual.com/investors (or any successor site).

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Cautionary Statement Regarding Forward Looking Statements

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

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

EXECUTIVE SUMMARY

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

Three Months Ended June 30, 2012 - Consolidated Results of Operations

- Revenues for the three months ended June 30, 2012 were $9.157 billion, an increase of $597 million or 7.0% over the same period in 2011.
- Net written premium ("NWP") for the three months ended June 30, 2012 was $8.335 billion, an increase of $633 million or 8.2% over the same period in 2011.
- Pre-tax operating income ("PTOI") before LP and LLC income for the three months ended June 30, 2012 was $48 million versus $398 million of pre-tax operating loss before LP and LLC income in the same period in 2011.
- PTOI for the three months ended June 30, 2012 was $139 million versus $270 million of pre-tax operating loss in the same period in 2011.
- Loss on extinguishment of debt for the three months ended June 30, 2012 was $148 million, an increase of $108 million over the same period in 2011. $798 million of debt with a weighted average interest rate of 8.03% was repurchased in the quarter and $1.000 billion of senior debt was issued with a weighted average interest rate of 5.73%.
- Net income attributable to LMHC for the three months ended June 30, 2012 was $139 million versus $179 million of net loss attributable to LMHC in the same period in 2011.
- Cash flow from operations for the three months ended June 30, 2012 was $574 million, an increase of $259 million or 82.2% over the same period in 2011.
- The consolidated combined ratio before catastrophes[1], net incurred losses attributable to prior years[2] and current accident year re-estimation[3] for the three months ended June 30, 2012 was 97.4%, an increase of 2.9 points over the same period in 2011. Including the impact of catastrophes, net incurred losses attributable to prior years and current accident year re-estimation, the Company's combined ratio for the three months ended June 30, 2012 decreased 6.6 points to 105.9%.

Six Months Ended June 30, 2012 - Consolidated Results of Operations

- Revenues for the six months ended June 30, 2012 were $18.038 billion, an increase of $1.097 billion or 6.5% over the same period in 2011.

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[1]Catastrophes include all current and prior accident year catastrophe losses incurred excluding losses related to the Company's external reinsurance assumed lines except for the 2011 Australia floods, Cyclone Yasi, Japan earthquake and tsunami, New Zealand earthquakes, Hurricane Irene, Thailand floods and the 2011 tornadoes and other severe storms in the U.S. 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 (excluding prior year losses related to natural catastrophes) including both earned premium attributable to prior years and amortization of retroactive reinsurance gains.
[3]Re-estimation of the current accident year loss reserves for the three months ended March 31, 2012 and March 31, 2011.

- NWP for the six months ended June 30, 2012 was $16.413 billion, an increase of $1.062 billion or 6.9% over the same period in 2011.

- PTOI before LP and LLC income for the six months ended June 30, 2012 was $504 million versus $161 million of pre-tax operating loss before LP and LLC income in the same period in 2011.

- PTOI for the six months ended June 30, 2012 was $716 million, an increase of $539 million over the same period in 2011.

- Loss on extinguishment of debt for the six months ended June 30, 2012 was $163 million, an increase of $123 million over the same period in 2011. $837 million of debt with a weighted average interest rate of 8.16% was repurchased year-to-date and $1.000 billion of senior debt was issued with a weighted average interest rate of 5.73%.

- Net income attributable to LMHC for the six months ended June 30, 2012 was $598 million, an increase of $413 million over the same period in 2011.

- Cash flow from operations for the six months ended June 30, 2012 was $1.225 billion, an increase of $288 million or 30.7% over the same period in 2011.

- The consolidated combined ratio before catastrophes and net incurred losses attributable to prior years for the six months ended June 30, 2012 was 96.8%, an increase of 1.1 points over the same period in 2011. Including the impact of catastrophes and net incurred losses attributable to prior years, the Company's combined ratio for the six months ended June 30, 2012 decreased 4.1 points to 103.4%.

Financial Condition as of June 30, 2012

- Total assets were $116.767 billion as of June 30, 2012, a decrease of $84 million from December 31, 2011.

- Total equity was $18.593 billion as of June 30, 2012, an increase of $994 million over December 31, 2011.

Subsequent Events

- On July 24, 2012, the Company announced the realignment of its four Strategic Business Units ("SBUs"). The four new SBUs are as follows:

  Commercial Insurance will serve traditional domestic commercial property and casualty accounts of all sizes and will include Summit and Group Benefits.

  Personal Insurance will include all domestic personal lines business. Liberty Mutual and Safeco brands and products will be maintained, and distribution channels will continue to be managed separately. Personal Insurance will also include Individual Life.

  Global Specialty will include Liberty International Underwriters, Liberty Mutual Reinsurance and Liberty Mutual Surety.

  Liberty International will be composed of local country operations.

The realignment changes will be reflected for third quarter reporting.

CONSOLIDATED RESULTS OF OPERATIONS

The Company has identified consolidated PTOI and PTOI before LP and LLC income as non-GAAP financial measures. PTOI is defined by the Company as pre-tax income excluding net realized gains, loss on extinguishment of debt, extraordinary items, discontinued operations, integration and other acquisition related costs and cumulative effects of changes in accounting principles. PTOI before LP and LLC income is defined as PTOI excluding LP and LLC results recognized on the equity method. PTOI before LP and LLC income and PTOI are considered by the Company to be appropriate indicators of underwriting and operating results and are consistent with the way the Company internally evaluates performance. Net realized gains and LP and LLC results are significantly impacted by both discretionary and economic factors and are not necessarily indicative of operating results, and the timing and amount of integration and other acquisition 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 "direct written premium" represent the amount of premium recorded for policies issued during a fiscal period excluding assumed and ceded reinsurance. 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 & 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.

Overview – Consolidated

Consolidated NWP by significant line of business was as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2012**	**2011**	**Change**	**2012**	**2011**	**Change**
Private passenger automobile	$2,800	$2,653	5.5%	$5,528	$5,163	7.1%
Workers compensation	949	826	14.9	1,950	1,945	0.3
Homeowners	956	847	12.9	1,713	1,517	12.9
Commercial multiple peril / fire	645	630	2.4	1,278	1,236	3.4
International local businesses (excluding private passenger automobile)	591	522	13.2	1,186	1,039	14.1
Lloyd's Syndicate 4472	358	314	14.0	918	829	10.7
Commercial automobile	378	390	(3.1)	739	739	-
General liability	345	320	7.8	667	652	2.3
LIU[1] third party	247	235	5.1	485	420	15.5
Group disability and life	197	195	1.0	393	402	(2.2)
Surety	184	192	(4.2)	356	381	(6.6)
LIU inland marine program	133	99	34.3	241	195	23.6
Individual life	117	78	50.0	202	147	37.4
LIU first party	129	129	-	201	200	0.5
Other[2] (including AVR)	306	272	12.5	556	486	14.4
Total NWP[3]	$8,335	$7,702	8.2%	$16,413	$15,351	6.9%

1 Liberty International Underwriters ("LIU").
2 Primarily includes NWP from assumed voluntary reinsurance ("AVR"), allied lines and domestic inland marine.
3 NWP associated with internal reinsurance has been re-allocated to the appropriate lines of business.

Consolidated NWP by SBU was as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2012**	**2011**	**Change**	**2012**	**2011**	**Change**
Liberty Mutual Agency Corporation ("LMAC")	$2,694	$2,642	2.0%	$5,270	$5,145	2.4%
International	2,199	2,050	7.3	4,428	4,040	9.6
Personal Markets	2,075	1,880	10.4	3,921	3,555	10.3
Commercial Markets	1,392	1,319	5.5	2,937	2,908	1.0
Corporate and Other	(25)	(189)	(86.8)	(143)	(297)	(51.9)
Total NWP	$8,335	$7,702	8.2%	$16,413	$15,351	6.9%
Foreign exchange effect on growth			(2.2%)			(1.4%)
NWP growth excluding foreign exchange			10.4%			8.3%

Major drivers of NWP growth were as follows:

	Three Months Ended June 30,				Six Months Ended June 30,			
$ in Millions	**2012**	**2011**	**$ Change**	**Points Attribution**	**2012**	**2011**	**$ Change**	**Points Attribution**
Total NWP	$8,335	$7,702	$633	8.2	$16,413	$15,351	$1,062	6.9
Components of Growth:								
International local businesses (excluding foreign exchange)	1,496	1,303	193	2.5	2,874	2,494	380	2.5
Domestic personal auto	2,004	1,872	132	1.7	3,984	3,708	276	1.8
-Domestic homeowners	1,160	1,028	132	1.7	2,080	1,843	237	1.5
-Homeowners quota share	(204)	(181)	(23)	(0.3)	(367)	(326)	(41)	(0.3)
Total Homeowners	956	847	109	1.4	1,713	1,517	196	1.2
Lloyd's Syndicate 4472	358	314	44	0.6	918	829	89	0.6
Individual life	117	78	39	0.5	202	147	55	0.4
Group disability and life	197	195	2	-	393	402	(9)	(0.1)
Surety	184	192	(8)	(0.1)	356	381	(25)	(0.2)
Foreign exchange	(171)	-	(171)	(2.2)	(217)	-	(217)	(1.4)
Other commercial lines	3,194	2,901	293	3.8	6,190	5,873	317	2.1
Total NWP	$8,335	$7,702	$633	8.2	$16,413	$15,351	$1,062	6.9

Consolidated NWP by geographic distribution channels was as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2012**	**2011**	**Change**	**2012**	**2011**	**Change**
U.S.	$6,419	$5,897	8.9%	$12,515	$11,772	6.3%
International[1]	1,916	1,805	6.1	3,898	3,579	8.9
Total NWP	$8,335	$7,702	8.2%	$16,413	$15,351	6.9%

1 Excludes domestically written business in the International SBU.

NWP for the three and six months ended June 30, 2012 was $8.335 billion and $16.413 billion, respectively, increases of $633 million and $1.062 billion over the same periods in 2011. Significant changes by major line of business include:

- Private passenger automobile NWP increased $147 million and $365 million in the quarter and year-to-date, respectively. The increases in both periods primarily reflect growth of policies in-force and rate increases in Personal Markets and LMAC, organic growth in International's local businesses, primarily in Latin America, and the acquisition of Quinn Insurance Limited ("QIL") in Ireland in November 2011.
- Workers compensation NWP increased $123 million and $5 million in the quarter and year-to-date, respectively. The increases in both periods primarily reflect favorable audit premium, rate increases and the workers compensation "booked as billed" adjustment in Corporate and Other.
- Homeowners NWP increased $109 million and $196 million in the quarter and year-to-date, respectively. The increases in both periods primarily reflect growth of policies in-force and rate increases in Personal Markets and LMAC.
- International local businesses (excluding private passenger automobile) NWP increased $69 million and $147 million in the quarter and year-to-date, respectively. The increases in both periods were primarily driven by organic growth in Latin America led by Venezuela (primarily

due to inflation), followed by Europe mainly attributable to the acquisition of QIL (Ireland) and KIT Finance Insurance (Russia) and to a lesser extent, Asia led by China.

- Lloyd's Syndicate 4472 NWP increased $44 million and $89 million in the quarter and year-to-date, respectively. The increases in both periods were largely due to favorable rates and new business.
- LIU third party NWP increased $12 million and $65 million in the quarter and year-to-date, respectively. The increases in both periods primarily reflect new business from casualty and specialty casualty lines.
- LIU inland marine program NWP increased $34 million and $46 million in the quarter and year-to-date, respectively. The increases in both periods primarily reflect subscriber growth, pricing mix and the inception of a program in Japan in 2012.
- Individual life NWP increased $39 million and $55 million in the quarter and year-to-date, respectively. The increases in both periods were primarily driven by strong structured settlement sales in 2012 compared to 2011.

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

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

Results of Operations – Consolidated

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2012**	**2011**	**Change**	**2012**	**2011**	**Change**
Revenues	$9,157	$8,560	7.0%	$18,038	$16,941	6.5%
PTOI before catastrophes, net incurred losses attributable to prior years, current accident year re-estimation and LP and LLC income	$678	$862	(21.3%)	$1,453	$1,469	(1.1%)
Catastrophes[1]	(651)	(1,263)	(48.5)	(972)	(1,851)	(47.5)
Net incurred losses attributable to prior years:						
- Asbestos & environmental	(2)	(1)	100.0	(4)	(2)	100.0
- All other[2]	41	13	NM	27	223	(87.9)
Current accident year re-estimation[3]	(18)	(9)	100.0	-	-	-
Pre-tax operating income (loss) before LP and LLC income	48	(398)	NM	504	(161)	NM
LP and LLC income[4]	91	128	(28.9)	212	338	(37.3)
Pre-tax operating income (loss)	139	(270)	NM	716	177	NM
Net realized gains	172	51	NM	221	127	74.0
Loss on extinguishment of debt	(148)	(40)	NM	(163)	(40)	NM
Pre-tax income (loss)	163	(259)	NM	774	264	193.2
Income tax (expense) /benefit	(28)	80	NM	(183)	(76)	140.8
Consolidated net income (loss)	135	(179)	NM	591	188	NM
Less: Net (loss) income attributable to non-controlling interest	(4)	-	NM	(7)	3	NM
Net income (loss) attributable to LMHC	$139	($179)	NM	$598	$185	NM
Cash flow from operations	$574	$315	82.2%	$1,225	$937	30.7%

1 Catastrophes include all current and prior accident year catastrophe losses incurred excluding losses related to the Company's external reinsurance assumed lines except for the 2011 Australia floods, Cyclone Yasi, Japan earthquake and tsunami, New Zealand earthquakes, Hurricane Irene, Thailand floods and the 2011 tornadoes and other severe storms in the U.S. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

2 Net of earned premium attributable to prior years of $19 million and $33 million for the three and six months ended June 30, 2012 and $9 million and $16 million for the same periods in 2011. Net of amortization of deferred gains on retroactive reinsurance of $10 million and $21 million for the three and six months ended June 30, 2012 and $14 million and $113 million for the same periods in 2011. 2011 reflects a gain on commutation of two retroactive reinsurance contracts during the first quarter.

3 Re-estimation of the current accident year loss reserves for the three months ended March 31, 2012 and March 31, 2011.

4 LP and LLC income is included in net investment income in the accompanying consolidated statements of income.

NM = Not Meaningful

PTOI for the three and six months ended June 30, 2012 was $139 million and $716 million, respectively, increases of $409 million and $539 million over the same periods in 2011. The increases in both periods primarily reflect premium growth and significantly lower catastrophe losses, partially offset by lower LP and LLC income, increased investment in growth-related items primarily captive sales representatives, increased variable compensation due to improved operating results, higher benefit costs and increased investment in technology. The year-to-date increase also reflects favorable non-catastrophe property results due to the mild winter, partially offset by less favorable net incurred losses attributable to prior years primarily in Surety and unfavorable net incurred losses attributable to prior years primarily within Lloyd's Syndicate 4472 business compared to 2011.

Revenues for the three and six months ended June 30, 2012 were $9.157 billion and $18.038 billion, respectively, increases of $597 million and $1.097 billion over the same periods in 2011. The major components of revenues are net premium earned, net investment income, net realized gains, and fee and other revenues.

Net premium earned for the three months and six months ended June 30, 2012 was $7.902 billion and $15.629 billion, respectively, increases of $480 million and $1.026 billion over the same periods in 2011. The increases in both periods primarily reflect strong written premium growth in the prior twelve months, including rate increases and the acquisition of QIL, partially offset by the impact of foreign exchange.

Net investment income for the three and six months ended June 30, 2012 was $832 million and $1.694 billion, respectively, decreases of $42 million and $95 million from the same periods in 2011. The decreases in both periods primarily reflect lower valuation increases in LP and LLC investments. Year- to-date, the decrease was partially offset by an increase in taxable interest income due to a higher invested asset base as a result of the acquisition of QIL as well as continued reinvestment of cash flow from operations

Net realized gains for the three and six months ended June 30, 2012 were $172 million and $221 million, respectively, increases of $121 million and $94 million over the same periods in 2011. The increases in both periods were primarily related to a gain on the sale of investments in the energy sector, a gain recognized from the sale of a business segment in Argentina and contingent consideration recognized in connection with the prior sale of certain Commercial Markets policy renewal rights, partially offset by increased impairments due to market volatility.

Fee and other revenues for the three and six months ended June 30, 2012 were $251 million and $494 million, respectively, increases of $38 and $72 million over the same periods in 2011. The increases in both periods primarily reflect higher oil and gas revenues in Corporate and Other due to increased production, higher premium finance revenues in International, higher commission revenues from Commercial Markets' servicing carrier operations, due to higher involuntary market premium volume, and third-party administrator fee income.

Claims, benefits and expenses for the three and six months ended June 30, 2012 were $8.846 billion and $17.101 billion, respectively, increases of $67 million and $464 million over the same periods in 2011. The increases in both periods were primarily driven by losses and expenses due to growth-related items primarily captive sales representatives, increased variable compensation due to improved operating results, higher benefit costs and increased investment in technology, partially offset by significantly lower catastrophe losses. The quarter was also offset by favorable net incurred losses attributable to prior years. The year-to-date increase was also due to lower favorable net incurred losses attributable to prior years primarily in Surety and unfavorable net incurred losses attributable to prior years primarily within Lloyd's Syndicate 4472 business compared to 2011.

Loss on extinguishment of debt for the three and six months ended June 30, 2012 was $148 million and $163 million, increases of $108 million and $123 million over the same periods in 2011, primarily resulting from two tender offers completed in the second quarter. $837 million of debt with a weighted average interest rate of 8.16% was repurchased year-to-date and $1.000 billion was issued with a weighted average interest rate of 5.73%.

Income tax (expense) benefit for the three and six months ended June 30, 2012 was ($28) million and ($183) million, respectively, versus $80 million and ($76) million for the same periods in 2011. The Company's effective tax rate for the three and six months ended June 30, 2012 was 17% and 24% compared to 31% and 29% for the same periods in 2011. For the three months ended June 30, 2012 the Company reported an income tax provision on pre-tax income as compared to reporting an income tax benefit on a pre-tax loss for the three months ended June 30, 2011. The Company's effective tax rate differs from the Federal statutory rate of 35% principally due to tax-exempt investment income and foreign taxes. In the second quarter of 2012 there was a decrease in the effective tax rate versus the first quarter of 2012 primarily due to lower pre-tax income (i.e., less income taxed at the Federal statutory rate of 35% before consideration and application of tax preference items and credits), a favorable change in foreign taxes and increased investment credits. The decrease in the effective tax rate for the six months ended June 30, 2012 versus the prior year was due to a favorable change in foreign taxes, increased investment credits, and a tax benefit in the first quarter of 2012 as compared to a tax provision in the first quarter of 2011 for revisions to prior year estimates.

Net income attributable to LMHC for the three and six months ended June 30, 2012, was $139 million and $598 million, respectively, increases of $318 million and $413 million over the same periods in 2011.
Cash flow from operations for the three and six months ended June 30, 2012 was $574 million and $1.225 billion, increases of $259 million and $288 million over the same periods in 2011. The increases in both periods reflect higher premium collections and lower catastrophe losses partially offset by the impact of QIL cash outflow due to loss reserve liquidation and higher non-catastrophe paid losses and expenses consistent with business growth. In addition, the year-to-date was also impacted by a federal income tax refund.

	Three Months Ended June 30,			**Six Months Ended June 30,**		
	2012	**2011**	**Change (Points)**	**2012**	**2011**	**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	67.7%	66.2%	1.5%	67.3%	67.1%	0.2%
Underwriting expense ratio	29.5	28.2	1.3	29.3	28.4	0.9
Dividend ratio	0.2	0.1	0.1	0.2	0.2	-
Subtotal	97.4	94.5	2.9	96.8	95.7	1.1
Catastrophes[1]	8.6	17.7	(9.1)	6.5	13.2	(6.7)
Net incurred losses attributable to prior years:						
- Asbestos & environmental	0.2	0.3	(0.1)	0.3	0.2	0.1
- All other	(0.5)	(0.1)	(0.4)	(0.2)	(1.6)	1.4
Current accident year re-estimation[2]	0.2	0.1	0.1	-	-	-
Total combined ratio[3]	105.9%	112.5%	(6.6)	103.4%	107.5%	(4.1)

1 Catastrophes include all current and prior accident year catastrophe losses incurred excluding losses related to the Company's external reinsurance assumed lines except for the 2011 Australia floods, Cyclone Yasi, Japan earthquake and tsunami, New Zealand earthquakes, Hurricane Irene, Thailand floods and the 2011 tornadoes and other severe storms in the U.S. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.
2 Re-estimation of the current accident year loss reserves for the three months ended March 31, 2012 and March 31, 2011.
3 The combined ratio, expressed as a percentage, is a measure of underwriting profitability. This measure should only be used in conjunction with, and not in lieu of, underwriting income and may not be comparable to other performance measures used by the Company's competitors. The combined ratio is computed as the sum of the following property and casualty ratios: the ratio of claims and claim adjustment expense to earned premium; the ratio to earned premium of insurance operating costs plus amortization of deferred policy acquisition costs less fee income (primarily related to the Company's involuntary market servicing carrier operations and managed care income) and less installment charges; and the ratio of policyholder dividends to earned premium. Provisions for uncollectible premium and reinsurance are not included in the combined ratio unless related to an asbestos and environmental commutation and certain other run off.

The consolidated combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation for the three and six months ended June 30, 2012 was 97.4% and 96.8%, increases of 2.9 points and 1.1 points over the same periods in 2011. The increases in the claims and claim adjustment expense ratio reflect higher surety claims and commercial lines liability losses in LMAC, higher non-catastrophe losses in International due to the addition of Ireland and increased non-catastrophe property and commercial auto losses in Commercial Markets, partially offset by favorable non-catastrophe losses in homeowners, commercial multiple peril and auto physical damage lines of business. The increases in the underwriting expense ratio reflect increased investment in growth-related items primarily captive sales representatives, increased variable compensation due to improved operating results, higher benefit costs and increased investment in technology.

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 six months ended June 30, 2012 was 105.9% and 103.4%, respectively, decreases of 6.6 points and 4.1 points from the same periods in 2011. The

decreases in both periods reflect the changes in the combined ratio previously discussed offset by significantly lower catastrophe losses. The quarter was also impacted by favorable net incurred losses attributable to prior years while year-to-date reflected a decrease in favorable net incurred losses attributable to prior years primarily due to the gain on the commutation of two retroactive reinsurance contracts in 2011 that did not recur.

LIBERTY MUTUAL AGENCY CORPORATION

Overview – Liberty Mutual Agency Corporation

LMAC sells personal and commercial insurance products and services to individuals and small to mid-sized businesses through independent agents throughout the United States. Commercial lines products are offered through eight regional insurance companies that combine local underwriting, market knowledge and service orientation with the scale advantages of a national company. Personal lines products are distributed nationally under the Safeco brand, with an emphasis on service, and product and pricing sophistication. Liberty Mutual Surety is a leading provider of nationwide contract and commercial surety bonds to businesses of all sizes.

LMAC NWP by segment was as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2012**	**2011**	**Change**	**2012**	**2011**	**Change**
Personal	$1,403	$1,286	9.1%	$2,707	$2,487	8.8%
Commercial	1,082	1,120	(3.4)	2,156	2,199	(2.0)
Surety	185	189	(2.1)	357	376	(5.1)
Corporate and Other[1]	24	47	(48.9)	50	83	(39.8)
Total NWP	$2,694	$2,642	2.0%	$5,270	$5,145	2.4%

1 Includes run-off operations and internal reinsurance.

LMAC NWP by line of business was as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2012**	**2011**	**Change**	**2012**	**2011**	**Change**
Commercial Lines						
Commercial multiple peril	$450	$466	(3.4%)	$906	$914	(0.9%)
Commercial automobile	259	277	(6.5)	505	534	(5.4)
Workers compensation	199	220	(9.5)	408	439	(7.1)
Surety	184	192	(4.2)	356	381	(6.6)
General liability	118	123	(4.1)	232	238	(2.5)
Other	77	76	1.3	147	146	0.7
Subtotal	$1,287	$1,354	(4.9)	$2,554	$2,652	(3.7)
Personal Lines						
Private passenger automobile	$767	$716	7.1	$1,566	$1,465	6.9
Homeowners	499	445	12.1	891	794	12.2
Other	141	127	11.0	259	234	10.7
Subtotal	$1,407	$1,288	9.2	$2,716	$2,493	8.9
Total NWP	$2,694	$2,642	2.0%	$5,270	$5,145	2.4%

NWP for the three and six months ended June 30, 2012 was $2.694 billion and $5.270 billion, respectively, increases of $52 million and $125 million over the same periods in 2011.

Commercial lines NWP for the three and six months ended June 30, 2012 was $1.287 billion and $2.554 billion, respectively, decreases of $67 million and $98 million from the same periods in 2011. The decreases in both periods reflect a decline in new business premium due to disciplined underwriting in a continued competitive marketplace and lower average policy size (primarily due to line of business mix change), partially offset by rate increases and favorable audit premiums. Both periods were further impacted by a decline in surety lines premium largely due to a decline in the volume of bonded projects, particularly large contract jobs.

Personal lines NWP for the three and six months ended June 30, 2012 was $1.407 billion and $2.716 billion, respectively, increases of $119 million and $223 million over the same periods in 2011. The increases reflect policies in-force growth of 5.8% across all product lines primarily due to strong new business. Both periods were further impacted by higher rates and increased auto average written premium due to a continued shift to annual private passenger auto policies.

Results of Operations – Liberty Mutual Agency Corporation

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2012**	**2011**	**Change**	**2012**	**2011**	**Change**
Revenues	$2,884	$2,857	0.9%	$5,742	$5,669	1.3%
PTOI before catastrophes, net incurred losses attributable to prior years, current accident year re-estimation and LP and LLC income	$334	$401	(16.7%)	$690	$706	(2.3%)
Catastrophes[1]	(397)	(800)	(50.4)	(585)	(995)	(41.2)
Net incurred losses attributable to prior years[2 3]	32	86	(62.8)	49	184	(73.4)
Current accident year re-estimation[4]	(5)	(9)	(44.4)	-	-	-
Pre-tax operating (loss) income before LP and LLC income	($36)	($322)	(88.8)	$154	($105)	NM
LP and LLC income[5]	1	1	-	2	1	100.0
Pre-tax operating (loss) income	($35)	($321)	(89.1)	$156	($104)	NM

1 Catastrophes include all current and prior year catastrophe losses. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.
2 Net of earned premium attributable to prior years of zero for the three and six months ended June 30, 2012 and the comparable periods in 2011.
3 Net of allowance for doubtful accounts of $55 million for the three and six months ended June 30, 2012, and zero for the comparable periods of 2011.
4 Re-estimation of the current accident year loss reserves for the three months ended March 31, 2012 and March 31, 2011.
5 LP and LLC income is included in net investment income in the accompanying consolidated statements of income.
NM = Not Meaningful

Pre-tax operating (loss) income for the three and six months ended June 30, 2012 was ($35) million and $156 million, respectively, versus pre-tax operating loss of ($321) million and ($104) million for the same periods in 2011. The changes in both periods reflect lower catastrophe losses, as the three months ended June 30, 2011 were more significantly impacted by tornadoes and severe wind events concentrated in the Midwest and Southeast regions. In addition, both periods were impacted by a reduction to prior year catastrophe losses, favorable non catastrophe losses in the homeowners and commercial multiple peril lines of business due to favorable loss trends due in part to the mild winter in 2012 and growth in net premium earned. These items were partially offset by lower favorable net incurred losses attributable to prior years in the surety and personal auto lines of business, an increase in current accident year claims emergence in the surety line of business and increased underwriting expenses due to advertising and technology expenses and higher variable compensation costs consistent with improved financial results compared to the second quarter of 2011.

Revenues for the three and six months ended June 30, 2012 were $2.884 billion and $5.742 billion, respectively, increases of $27 million and $73 million over the same periods in 2011. The major components of revenues are net premium earned, net investment income, and net realized gains.

Net premium earned for the three and six months ended June 30, 2012 was $2.659 billion and $5.291 billion, respectively, increases of $43 million and $121 million over the same periods in 2011. The increases in both periods reflect increased personal lines written premium, due to rate increases, as well as favorable commercial lines audit premiums.

Net investment income for the three and six months ended June 30, 2012 was $201 million and $398 million, respectively, decreases of $5 million and $12 million from the same periods in 2011. The decreases in both periods were primarily driven by lower investment yields on fixed maturity assets, which were partially offset by higher dividends on common equities, primarily attributable to an increased investment in this asset class.

Net realized (losses) gains for the three and six months ended June 30, 2012 were ($1) million and $4 million, respectively, decreases of $13 million and $38 million from the same periods in 2011. The

decreases in both periods were primarily driven by the higher impairments taken in 2012 on common equities which were mostly offset by gains on the sale of fixed maturities and due to a gain on sale of a business segment in 2011 that did not recur in 2012.

Claims, benefits and expenses for the three and six months ended June 30, 2012 were $2.920 billion and $5.582 billion, respectively, decreases of $246 million and $149 million from the same periods in 2011. The decreases in both periods reflect lower catastrophe losses, as the three months ended June 30, 2011 were more significantly impacted by tornadoes and severe wind events concentrated in the Midwest and Southeast regions. In addition, both periods were impacted by a reduction to prior year catastrophe losses, favorable non catastrophe losses in the homeowners and commercial multiple peril lines of business due to favorable loss trends due in part to the mild winter in 2012 and growth in net premium earned. These items were partially offset by lower favorable net incurred losses attributable to prior years in the surety and personal auto lines of business, an increase in current accident year claims emergence in the surety line of business and increased underwriting expenses due to advertising and technology expenses and higher variable compensation costs consistent with improved financial results compared to the second quarter of 2011.

	Three Months Ended June 30,			**Six Months Ended June 30,**		
LIBERTY MUTUAL AGENCY CORPORATION	**2012**	**2011**	**Change (Points)**	**2012**	**2011**	**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%	59.9%	2.2	61.5%	61.5%	-
Underwriting expense ratio	31.4	31.2	0.2	31.5	31.3	0.2
Dividend ratio	0.2	0.2	-	0.2	0.2	-
Subtotal	93.7	91.3	2.4	93.2	93.0	0.2
Catastrophes[1]	14.9	30.6	(15.7)	11.0	19.3	(8.3)
Net incurred losses attributable to prior years[2]	(1.2)	(3.3)	2.1	(0.9)	(3.6)	2.7
Current accident year re-estimation[3]	0.2	0.3	(0.1)	-	-	-
Total combined ratio	107.6%	118.9%	(11.3)	103.3%	108.7%	(5.4)

1 Catastrophes include all current and prior year catastrophe losses. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.
2 Net of allowance for doubtful accounts of $55 million for the three and six months ended June 30, 2012, and zero for the comparable periods of 2011.
3 Re-estimation of the current accident year loss reserves for the three months ended March 31, 2012 and March 31, 2011.

The LMAC combined ratio before catastrophes, net incurred losses attributable to prior years and current year re-estimation for the three and six months ended June 30, 2012 was 93.7% and 93.2%, respectively, increases of 2.4 points and 0.2 points over the same periods in 2011. The claims and claim adjustment expense ratio was impacted in both periods by higher surety claims emergence and commercial lines liability losses. The year-to-date ratio was fully offset by favorable non-catastrophe losses in the homeowners and commercial multiple peril lines of business due to favorable loss trends due in part to the mild winter in 2012. The increase in the underwriting expense ratio in both periods reflects increased advertising and technology expenses and increased variable compensation costs consistent with improved financial results compared to the second quarter of 2011.

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 six months ended June 30, 2012 was 107.6% and 103.3%, respectively, decreases of 11.3 points and 5.4 points from the same periods in 2011. The decreases in both periods reflect a decrease in catastrophe losses, as the three months ended June 30, 2011 were more significantly impacted by tornadoes and severe wind events concentrated in the Midwest and

Southeast regions. Both periods were further impacted by a reduction in prior year catastrophe losses. These decreases were partially offset by less favorable net incurred losses attributable to prior years in the surety and personal auto lines of business.

INTERNATIONAL

Overview – International

International sells insurance products and services through two distinct approaches: local businesses, which sell personal and small commercial lines products, and LIU which sells specialty commercial insurance and reinsurance worldwide. International's local business operations consist of local insurance operations selling property, casualty, health and life insurance products to individuals and businesses in three geographic regions: Latin America, including Venezuela, Brazil, Colombia, Argentina (Liberty ART S.A. sold its workers compensation business in June 2012) and Chile; Europe, including Spain, Portugal, Turkey, Poland, Ireland (as a result of the QIL acquisition in November 2011) and Russia (as a result of the KIT Finance Insurance acquisition in March 2012); and Asia, including Thailand, Singapore, China (including Hong Kong) and Vietnam. Private passenger automobile insurance is the single largest line of business. LIU writes casualty, specialty casualty, marine, energy, construction, aviation, property, crisis management and trade credit coverage and other specialty programs through offices in Asia, Australia, Europe, the Middle East, North America and Latin America. LIU, through its Lloyd's Syndicate 4472, also provides multi-line insurance and reinsurance worldwide.

International NWP by market segment was as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2012**	**2011**	**Change**	**2012**	**2011**	**Change**
International Local Businesses Total	$1,383	$1,293	7.0%	$2,701	$2,467	9.5%
- Latin America	883	845	4.5	1,775	1,648	7.7
- Europe	396	356	11.2	719	635	13.2
- Asia	104	92	13.0	207	184	12.5
Liberty International Underwriters	816	757	7.8	1,727	1,573	9.8
Total NWP	$2,199	$2,050	7.3%	$4,428	$4,040	9.6%
Foreign exchange effect on growth			(8.3%)			(5.4%)
NWP growth excluding foreign exchange			15.6%			15.0%

International's major product lines are as follows:

(1) Local businesses: personal, primarily private passenger automobile, and commercial insurance;
(2) Lloyd's Syndicate 4472: multi-line insurance and reinsurance with an emphasis on property, contingent lines, marine reinsurance and property and casualty reinsurance;
(3) LIU inland marine program: handset protection coverage for lost or damaged devices;
(4) LIU third party: includes casualty, excess casualty, directors and officers, errors and omissions, environmental impairment liability, commercial automobile, railroad and other;
(5) LIU first party: includes marine, energy, construction, aviation and property; and
(6) LIU other: includes workers compensation, surety, trade credit, excess and surplus property and crisis management.

International NWP by line of business was as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2012**	**2011**	**Change**	**2012**	**2011**	**Change**
Local businesses – private passenger auto	$796	$781	1.9%	$1,541	$1,453	6.1%
Local businesses – all other[1]	587	512	14.6	1,160	1,014	14.4
Lloyd's Syndicate 4472	339	319	6.3	840	773	8.7
LIU inland marine program	133	99	34.3	241	195	23.6
LIU third party	221	218	1.4	444	402	10.4
LIU first party	105	96	9.4	163	164	(0.6)
LIU other	18	25	(28.0)	39	39	-
Total NWP	$2,199	$2,050	7.3%	$4,428	$4,040	9.6%

1 Premium related to other personal lines and commercial insurance products sold by local business operations.

NWP for the three and six months ended June 30, 2012 was $2.199 billion and $4.428 billion, respectively, increases of $149 million and $388 million over the same periods in 2011. The increases in both periods reflect organic growth in local operations across all the regions, primarily in Latin America, led by Venezuela (primarily due to the impact of inflation), followed by Europe, mainly attributable to the addition of Ireland and Russia, and to a lesser extent, Asia, led by China. Growth in LIU in both periods was primarily driven by Lloyd's Syndicate 4472 business largely due to favorable rates and new business, as well as the inland marine business, due to subscriber growth, pricing mix and the inception of a program in Japan in 2012. LIU third party also contributed to the growth, mainly year-to-date, due to new business from casualty and specialty casualty lines. The increases were partially offset by the impact of foreign exchange (approximately $171 million and $217 million in the quarter and year-to-date, respectively).

Results of Operations – International

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2012**	**2011**	**Change**	**2012**	**2011**	**Change**
Revenues	$2,330	$2,079	12.1%	$4,597	$4,052	13.5%
PTOI before catastrophes and net incurred losses attributable to prior years	$172	$216	(20.4%)	$359	$370	(3.0%)
Catastrophes[1]	12	(85)	NM	19	(337)	NM
Net incurred losses attributable to prior years[2]	-	26	(100.0)	(44)	65	NM
Pre-tax operating income	$184	$157	17.2%	$334	$98	NM

1 Catastrophes include all current and prior accident year catastrophe losses incurred excluding losses related to the Company's external reinsurance assumed lines except for the 2011 Australia floods, Cyclone Yasi, Japan earthquake and tsunami, New Zealand earthquakes, Hurricane Irene, Thailand floods and the 2011 tornadoes and other severe storms in the U.S. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

2 Net of earned premium attributable to prior years of $6 million and $5 million for the three months and six months ended June 30, 2012 and $1 million and $7 million for the comparative periods in 2011.

NM = Not Meaningful

PTOI for the three and six months ended June 30, 2012 was $184 million and $334 million, respectively, increases of $27 million and $236 million over the same periods in 2011. The increases in both periods were primarily driven by the favorable development of 2011 catastrophe losses and the absence of catastrophe events in 2012 compared to the catastrophe losses related to the Australia floods, Cyclone Yasi, Japan earthquake and tsunami, New Zealand earthquakes, Hurricane Irene and the tornadoes and severe storms in the U.S. in 2011. The increases were partially offset by the absence of favorable net incurred losses attributable to prior years in the quarter and unfavorable net incurred losses attributable to prior years on a year-to-date basis, compared to favorable net incurred losses attributable to prior years in 2011 (primarily within Lloyd's Syndicate 4472 business). The increases were slightly offset by the impact of foreign exchange (approximately $3 million and $4 million in the quarter and year-to-date, respectively).

Revenues for the three and six months ended June 30, 2012 were $2.330 billion and $4.597 billion, respectively, increases of $251 million and $545 million over the same periods in 2011. The primary components of revenues are net premium earned and net investment income.

Net premium earned for the three and six months ended June 30, 2012 was $2.081 billion and $4.117 billion, respectively, increases of $182 million and $432 million over the same periods in 2011. The increases in both periods reflect the previously mentioned growth in NWP in 2012 and the second half of 2011, partially offset by the impact of foreign exchange (approximately $98 million and $141 million in the quarter and year-to-date, respectively).

Net investment income for the three and six months ended June 30, 2012 was $177 million and $355 million, respectively, increases of $18 million and $49 million over the same periods in 2011. The increases in both periods reflect a higher invested asset base due to the reinvestment of cash flow from operations driven by the growth in NWP and the addition of Ireland.

Claims, benefits and expenses for the three and six months ended June 30, 2012 were $2.121 billion and $4.225 billion, respectively, increases of $185 million and $263 million over the same periods in 2011. The increases were primarily driven by the organic growth in Latin America and LIU, the addition of Ireland, as well as the absence of incurred losses attributable to prior years in the quarter and unfavorable net incurred losses attributable to prior years on a year-to-date basis, compared to favorable net incurred losses attributable to prior years in 2011 (primarily within Lloyd's Syndicate 4472 business). The increases were partially offset by the favorable development of 2011 catastrophe losses and the absence of catastrophe events in 2012 compared to the catastrophe losses related to the Australia floods, Cyclone Yasi, Japan earthquake and tsunami, New Zealand earthquakes, Hurricane Irene and the tornadoes and severe storms in the U.S. in 2011.

INTERNATIONAL	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	Change (Points)	2012	2011	Change (Points)
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	67.3%	65.1%	2.2	67.2%	65.9%	1.3
Underwriting expense ratio	32.5	31.4	1.1	32.2	31.4	0.8
Subtotal	99.8	96.5	3.3	99.4	97.3	2.1
Catastrophes[1]	(0.7)	4.5	(5.2)	(0.5)	9.2	(9.7)
Net incurred losses attributable to prior years	0.1	(1.4)	1.5	1.1	(1.7)	2.8
Total combined ratio	99.2%	99.6%	(0.4)	100.0%	104.8%	(4.8)

1 Catastrophes include all current and prior accident year catastrophe losses incurred excluding losses related to the Company's external reinsurance assumed lines except for the 2011 Australia floods, Cyclone Yasi, Japan earthquake and tsunami, New Zealand earthquakes, Hurricane Irene, Thailand floods and the 2011 tornadoes and other severe storms in the U.S. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

The International combined ratio before catastrophes and net incurred losses attributable to prior years for the three and six months ended June 30, 2012 was 99.8% and 99.4%, respectively, increases of 3.3 points and 2.1 points over the same periods in 2011. The increases in both periods reflect higher non-catastrophe and current accident year claims and claim adjustment expenses, primarily driven by the addition of Ireland in 2012, as well as higher underwriting expenses related to technology infrastructure which will result in efficiencies in future years.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three and six months ended June 30, 2012 was 99.2% and 100.0%, respectively, decreases of 0.4 points and 4.8 points from the same periods in 2011. The decreases reflect the favorable development of 2011 catastrophe losses and the absence of catastrophe events in 2012 compared to the catastrophe losses related to the Australia floods, Cyclone Yasi, Japan earthquake and tsunami, New Zealand earthquakes, Hurricane Irene and the tornadoes and severe storms in the U.S. in 2011, partially offset by the absence of favorable incurred losses attributable to prior years in the quarter and unfavorable net incurred losses attributable to prior years on a year-to-date basis, compared to favorable net incurred losses attributable to prior years in 2011 (primarily within Lloyd's Syndicate 4472 business) and the changes in the combined ratio previously discussed.

PERSONAL MARKETS

Overview – Personal Markets

Personal Markets sells automobile, homeowners and other types of property and casualty insurance coverage, as well as life and annuity products, to individuals in the United States. Products are distributed through more than 2,300 licensed captive sales representatives, approximately 500 licensed telesales counselors, third-party producers (including banks for life products) and the Internet. Personal Markets' largest source of new business is through its 14,000 sponsored affinity groups (including employers, professional and alumni associations, credit unions, and other partnerships).

Personal Markets NWP by line of business was as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2012**	**2011**	**Change**	**2012**	**2011**	**Change**
Private passenger automobile	$1,237	$1,154	7.2%	$2,417	$2,239	7.9%
Homeowners and other	724	650	11.4	1,309	1,173	11.6
Individual life	114	76	50.0	195	143	36.4
Total NWP	$2,075	$1,880	10.4%	$3,921	$3,555	10.3%

NWP for the three and six months ended June 30, 2012 was $2.075 billion and $3.921 billion, respectively, increases of $195 million and $366 million over the same periods in 2011.

Private passenger automobile NWP for the three and six months ended June 30, 2012 was $1.237 billion and $2.417 billion, respectively, increases of $83 million and $178 million over the same periods in 2011. The increases reflect 3.8% growth in policies in-force as compared to June 30, 2011 as well as rate increases.

Homeowners and other NWP for the three and six months ended June 30, 2012 was $724 million and $1.309 billion, respectively, increases of $74 million and $136 million over the same periods in 2011. The increases reflect 5.5% growth in homeowners policies in-force as compared to June 30, 2011 as well as rate increases.

Individual life NWP for the three and six months ended June 30, 2012 was $114 million and $195 million, respectively, increases of $38 million and $52 million over the same periods in 2011. The increases were driven by strong structured settlement sales in 2012 compared to 2011.

Results of Operations – Personal Markets

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2012**	**2011**	**Change**	**2012**	**2011**	**Change**
Revenues	$2,157	$1,977	9.1%	$4,238	$3,894	8.8%
PTOI before catastrophes and net incurred losses attributable to prior years	$344	$330	4.2%	$689	$612	12.6%
Catastrophes[1]	(300)	(386)	(22.3)	(416)	(507)	(17.9)
Net incurred losses attributable to prior years	4	(3)	NM	(6)	2	NM
Pre-tax operating income (loss)	$48	($59)	NM	$267	$107	149.5%

1 Catastrophes include all current and prior year catastrophe losses. 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 six months ended June 30, 2012 was $48 million and $267 million, respectively, versus ($59) million and $107 million in the same periods in 2011. The changes in both periods were primarily driven by lower catastrophes due to the significant tornado, hail, and other severe storms in the second quarter of 2011, as well as favorable non-catastrophe frequency trends in the homeowners and auto physical damage lines due, in part, to the mild winter in 2012 and the impact of growth in net premium earned versus the prior year.

Revenues for the three and six months ended June 30, 2012 were $2.157 billion and $4.238 billion, respectively, increases of $180 million and $344 million over the same periods in 2011. The major components of revenues are net premium earned and net investment income.

Net premium earned for the three and six months ended June 30, 2012 was $1.907 billion and $3.748 billion, respectively, increases of $167 million and $318 million over the same periods in 2011. The increases in both periods reflect the premium earned associated with the changes in NWP previously discussed and NWP growth in the second half of 2011.

Net investment income for the three and six months ended June 30, 2012 was $205 million and $405 million, respectively, increases of $10 million and $19 million over the same periods in 2011. The increases were primarily driven by a higher invested asset base compared to the prior year.

Claims, benefits and expenses for the three and six months ended June 30, 2012 were $2.110 billion and $3.971 billion, respectively, increases of $77 million and $190 million over the same periods in 2011. The increases were primarily due to business growth, partially offset by lower catastrophe losses and favorable non-catastrophe frequency trends in the homeowners and auto physical damage lines due, in part, to the mild winter in 2012.

PERSONAL MARKETS	Three Months Ended June 30, 2012	2011	Change (Points)	Six Months Ended June 30, 2012	2011	Change (Points)
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	60.8%	62.0%	(1.2)	61.2%	62.8%	(1.6)
Underwriting expense ratio	25.1	24.2	0.9	24.8	24.2	0.6
Subtotal	85.9	86.2	(0.3)	86.0	87.0	(1.0)
Catastrophes[1]	16.7	23.2	(6.5)	11.7	15.4	(3.7)
Net incurred losses attributable to prior years	(0.2)	0.2	(0.4)	0.2	(0.1)	0.3
Total combined ratio	102.4%	109.6%	(7.2)	97.9%	102.3%	(4.4)

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

The Personal Markets combined ratio before catastrophes and net incurred losses attributable to prior years for the three and six months ended June 30, 2012 was 85.9% and 86.0%, respectively, decreases of 0.3 points and 1.0 point from the same periods in 2011. The decreases in the claims and claim adjustment expense ratio primarily reflect favorable non-catastrophe frequency trends in the homeowners and auto physical damage lines of business due, in part, to the mild winter in 2012. The increases in the underwriting expense ratio are the result of growth-related items primarily captive sales representatives, an investment in information technology and higher advertising expenses.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three and six months ended June 30, 2012 was 102.4% and 97.9%, respectively, decreases of 7.2 points and 4.4 points from the same periods in 2011. The decreases in both periods primarily reflect lower catastrophe losses and the changes in the combined ratio previously discussed.

COMMERCIAL MARKETS

Overview – Commercial Markets

Commercial Markets sells a wide array of property and casualty and group benefits insurance coverages through independent agents, brokers and benefit consultants throughout the United States. Commercial Markets P&C provides commercial lines products and services to mid-sized and large businesses (with an annual cost of risk of $150,000 or more). Group Benefits provides mid-sized and large businesses with short- and long-term disability insurance products and administrative services and group life insurance. Summit provides workers compensation in the Southeast primarily to small businesses. Liberty Mutual Reinsurance provides reinsurance programs to domestic and foreign insurance and reinsurance companies. The Company is also a servicing carrier for state based workers compensation involuntary market pools.

Commercial Markets NWP by market segment was as follows:

	Three Months Ended June 30,			**Six Months Ended June 30,**		
$ in Millions	**2012**	**2011**	**Change**	**2012**	**2011**	**Change**
Commercial Markets P&C	$962	$916	5.0%	$2,032	$2,075	(2.1%)
Group Benefits	196	195	0.5	392	402	(2.5)
Summit	148	123	20.3	336	289	16.3
Liberty Mutual Reinsurance	86	85	1.2	177	142	24.6
Total NWP	$1,392	$1,319	5.5%	$2,937	$2,908	1.0%

Commercial Markets NWP by line of business was as follows:

	Three Months Ended June 30,			**Six Months Ended June 30,**		
$ in Millions	**2012**	**2011**	**Change**	**2012**	**2011**	**Change**
Workers compensation	$677	$661	2.4%	$1,542	$1,605	(3.9%)
Group disability and life	196	195	0.5	392	402	(2.5)
General liability	166	141	17.7	320	310	3.2
Commercial multiple peril / fire	133	107	24.3	257	214	20.1
Commercial automobile	119	115	3.5	234	208	12.5
Other (including AVR)	101	100	1.0	192	169	13.6
Total NWP	$1,392	$1,319	5.5%	$2,937	$2,908	1.0%

NWP for the three and six months ended June 30, 2012 was $1.392 billion and $2.937 billion, respectively, increases of $73 million and $29 million over the same periods in 2011. The increases in both periods reflect increased rate and exposures across all property and casualty lines of business, most notably in the Commercial Markets P&C and Summit's workers compensation line of business, and new business writings in the property line of business. Both periods also reflect non-renewed business outpacing new business in workers compensation, excluding the impact of rate and exposures. The year-to-date increase also reflects higher written premium in Liberty Mutual Reinsurance due to a change in an assumed program structure. On a year-to-date basis, the increase was partially offset by two large 2011 events, which did not recur, a construction account with multi-year exposures in the workers compensation and general liability lines of business in the Commercial Markets P&C segment and a large disability account transfer in Group Benefits.

Results of Operations – Commercial Markets

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2012**	**2011**	**Change**	**2012**	**2011**	**Change**
Revenues	$1,646	$1,573	4.6%	$3,260	$3,132	4.1%
PTOI before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation	106	86	23.3	206	169	21.9
Catastrophes[1]	(36)	(86)	(58.1)	(89)	(136)	(34.6)
Net incurred losses attributable to prior years[2]	-	5	(100.0)	9	2	NM
Current accident year re-estimation[3]	(13)	-	NM	-	-	-
PTOI	$57	$5	NM	$126	$35	NM

1 Catastrophes include all current and prior accident year catastrophe losses incurred excluding losses related to the Company's assumed voluntary reinsurance except for the 2011 Australia floods, Japan earthquake and tsunami, New Zealand earthquakes, Hurricane Irene and the 2011 tornadoes and other severe storms in the U.S. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

2 Net of earned premium attributable to prior years of $13 million and $28 million for the three and six months ended June 30, 2012 and $9 million for the comparable periods in 2011. Net of amortization of deferred gains on assumed retroactive reinsurance of zero and $1 million for the three and six months ended June 30, 2012 and $4 million for the comparable periods in 2011.

3 Re-estimation of the current accident year loss reserves for the three months ended March 31, 2012.

NM = Not Meaningful

PTOI for the three and six months ended June 30, 2012 was $57 million and $126 million, respectively, increases of $52 million and $91 million over the same periods in 2011. The increases in both periods reflect decreased catastrophe losses, an improvement in long-term disability results, additional earnings attributable to business growth, rate increases and a decline in bad debt expense. The year-to-date increase also reflects favorable development of assumed involuntary net incurred losses attributable to prior years. The increases in both periods were partially offset by increased current accident year non-catastrophe losses in both property and casualty lines of business. The quarter also includes unfavorable loss development associated with re-estimation of current accident year losses in the Commercial Markets P&C segment.

Revenues for the three and six months ended June 30, 2012 were $1.646 billion and $3.260 billion, respectively, increases of $73 million and $128 million over the same periods in 2011. The major components of revenues are net premium earned, net investment income and fee and other revenues.

Net premium earned for the three and six months ended June 30, 2012 was $1.356 billion and $2.682 billion, respectively, increases of $66 million and $116 million over the same periods in 2011. The increases in both periods reflect increases in NWP in Commercial Markets P&C's property lines of business, Summit's workers compensation line of business and growth in Liberty Mutual Reinsurance. On a year-to-date basis, the increase was partially offset by the large disability account transfer in Group Benefits from 2011 that did not recur.

Net investment income for the three and six months ended June 30, 2012 was $217 million and $434 million, respectively, representing no change versus the same periods in 2011.

Fee and other revenues for the three and six months ended June 30, 2012 were $72 million and $143 million, respectively, increases of $6 million and $11 million over the same periods in 2011. The increases in both periods reflect higher commission revenues from the Company's servicing carrier operations due to higher involuntary market premium volume, and third-party administrator fee income. As a servicing carrier, the Company receives fee income for performing certain underwriting, claims and administrative services for all participating involuntary pool members.

Claims, benefits, and expenses for the three and six months ended June 30, 2012 were $1.588 billion and $3.133 billion, respectively, increases of $20 million and $36 million over the same periods in 2011. The increases in both periods reflect increased current accident year non-catastrophe property and casualty losses attributable to business growth and increased non-catastrophe property losses. The increases in both periods were partially offset by lower catastrophe losses attributable to the tornadoes and severe storms in the U.S. in the second quarter of 2011, an improvement in long-term disability losses, and a reduction in bad debt. On a year-to-date basis, the increase was also partially offset by costs associated with a large disability account written in 2011 that did not recur.

	Three Months Ended June 30,			Six Months Ended June 30,		
			Change			Change
COMMERCIAL MARKETS	**2012**	**2011**	**(Points)**	**2012**	**2011**	**(Points)**
Combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation						
Claims and claim adjustment expense ratio	86.6%	85.2%	1.4	85.9%	85.4%	0.5
Underwriting expense ratio	24.2	25.5	(1.3)	24.3	25.1	(0.8)
Dividend ratio	0.6	0.5	0.1	0.6	0.6	-
Subtotal	111.4	111.2	0.2	110.8	111.1	(0.3)
Catastrophes[1]	3.1	7.9	(4.8)	3.9	6.3	(2.4)
Net incurred losses attributable to prior years[2]	(0.3)	(0.7)	0.4	(0.6)	(0.2)	(0.4)
Current accident year re-estimation[3]	1.1	-	1.1	-	-	-
Total combined ratio	115.3%	118.4%	(3.1)	114.1%	117.2%	(3.1)

1 Catastrophes include all current and prior accident year catastrophe losses incurred excluding losses related to the Company's assumed voluntary reinsurance except for the 2011 Australia floods, Japan earthquake and tsunami, New Zealand earthquakes, Hurricane Irene and the 2011 tornadoes and other severe storms in the U.S. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

2 Net of earned premium attributable to prior years.

3 Re-estimation of the current accident year loss reserves for the three months ended March 31, 2012.

The Commercial Markets combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation for the three and six months ended June 30, 2012 was 111.4% and 110.8%, respectively, an increase of 0.2 points and a decrease of 0.3 points versus the same periods in 2011. The increases in the claims and claim adjustment expense ratio in both periods reflect increased non-catastrophe property and commercial auto losses. On a year-to-date basis, the increase also includes increased workers compensation losses. These increases were partially offset in the quarter and more than offset on a year-to-date basis by a decrease in the underwriting expense ratio due to higher 2012 earned premium and servicing carrier commission revenue.

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 six months ended June 30, 2012 was 115.3% and 114.1%, respectively, decreases of 3.1 points from the same periods in 2011. The decreases in both periods reflect the changes in the combined ratio previously discussed as well as lower catastrophe losses attributable to the tornadoes and severe storms in the U.S. in the second quarter of 2011. The decrease in the quarter was partially offset by unfavorable loss development associated with re-estimation of current accident year losses in the Commercial Markets P&C segment. The year-to-date decrease also reflects favorable development of assumed involuntary net incurred losses attributable to prior years.

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 LMAC 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").

- Effective July 1, 2011, Corporate and Commercial Markets novated their reinsurance treaty that applied to certain pre-2005 workers compensation claims and entered into two new agreements including: (1) certain pre-2011 voluntary workers compensation claims and, (2) certain pre-2011 involuntary workers compensation claims.

- Interest expense on the Company's outstanding debt.

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

- The Company reports its written premium on workers compensation contracts on the "booked as billed" method. Commercial Markets 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 Markets 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 allocated to the SBUs.

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

- Income related to LP and LLC investments, excluding LMAC activity.

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

- Effective January 1, 2011, certain retroactive reinsurance agreements previously reported within Commercial Markets.

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

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2012**	**2011**	**Change**	**2012**	**2011**	**Change**
Reinsurance, net	($101)	($132)	(23.5%)	($145)	($192)	(24.5%)
Workers compensation[1]	74	(59)	NM	-	(107)	(100.0)
Other	2	2	-	2	2	-
Total NWP	($25)	($189)	(86.8%)	($143)	($297)	(51.9%)

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

NWP for the three and six months ended June 30, 2012 was ($25) million and ($143) million, respectively, increases of $164 million and $154 over the same periods in 2011. The changes were primarily due to a decrease in the Company's workers compensation "booked as billed" adjustment and an increase in assumed premium related to the Company's internal reinsurance program, partially offset by an increase in ceded premium related to the homeowners quota share treaty covering Personal Markets homeowners.

Results of Operations – Corporate and Other

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2012**	**2011**	**Change**	**2012**	**2011**	**Change**
Revenues	$140	$74	89.2%	$201	$194	3.6%
Pre-tax operating loss before catastrophes, net incurred losses attributable to prior years and LP and LLC income	($278)	($171)	62.6%	($491)	($388)	26.5%
Catastrophes[1]	70	94	(25.5)	99	124	(20.2)
Net incurred losses attributable to prior years:						
- Asbestos & environmental	(2)	(1)	100.0	(4)	(2)	100.0
- All other[2]	5	(101)	NM	19	(30)	NM
Pre-tax operating loss before LP and LLC income	(205)	(179)	14.5	(377)	(296)	27.4
LP and LLC income [3]	90	127	(29.1)	210	337	(37.7)
Pre-tax operating (loss) income	($115)	($52)	121.2%	($167)	$41	NM

1 Catastrophes include all current and prior accident year catastrophe losses incurred excluding losses related to the Company's external reinsurance assumed lines except for the 2011 Australia floods, Cyclone Yasi, Japan earthquake and tsunami, New Zealand earthquakes, Hurricane Irene, Thailand floods and the 2011 tornadoes and other severe storms in the U.S. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums of zero for the three and six months ended June 30, 2012 and 2011, respectively.

2 Net of earned premium attributable to prior years of zero for the three and six months ended June 30, 2012 and 2011, respectively. Net of amortization of deferred gains on retroactive reinsurance of $10 million and $20 million for the three and six months ended June 30, 2012 and $10 million and $109 million for the same periods in 2011. 2011 reflects a gain on commutation of two retroactive reinsurance contracts during the first quarter.

3 LP and LLC income is included in net investment income in the accompanying consolidated statements of income.

NM = Not Meaningful

Pre-tax operating loss for the three and six months ended June 30, 2012 was $115 million and $167 million, respectively, changes of $63 million and $208 million over the same periods in 2011. The changes were primarily driven by lower valuation increases in LP and LLC investments, higher corporate expenses primarily due to employee benefits as a result of improved profitability and a lower pension discount rate, and lower ceded catastrophe losses, partially offset by a decrease in the amount of incurred losses attributable to prior years related to pre-2011 workers compensation business assumed from Commercial Markets. The change in the year is also driven by a gain on the commutation of two workers compensation retroactive reinsurance agreements that occurred in 2011, partially offset by a decrease in interest expense as a result of debt repurchases in 2011.

Revenues for the three and six months ended June 30, 2012 were $140 million and $201 million, respectively, increases of $66 million and $7 million over the same periods in 2011. The major components of revenues are net premium earned, net investment income, net realized gains, and fee and other revenues.

Net premium earned for the three and six months ended June 30, 2012 was ($101) million and ($209) million, respectively, increases of $22 million and $39 million over the same periods in 2011. The increases reflect the earned premium associated with the changes in reinsurance NWP previously discussed.

Net investment income for the three and six months ended June 30, 2012 was $32 million and $102 million, respectively, decreases of $65 million and $151 million from the same periods in 2011. The decreases primarily reflect lower valuation increases in LP and LLC investments.

Net realized gains for the three and six months ended June 30, 2012 were $148 million and $178 million, respectively, increases of $98 million and $91 million over the same periods in 2011. The increases in both periods reflect a gain on the sale of investments in the energy sector and contingent consideration recognized in connection with the prior sale of certain Commercial Markets policy renewal rights, partially offset by increased impairments due to market volatility.

Fee and other revenues for the three and six months ended June 30, 2012 were $61 million and $130 million, increases of $11 million and $28 million over the same periods in 2011. The increase primarily reflects higher oil and gas revenues due to increased production.

Claims, benefits and expenses for the three and six months ended June 30, 2012 were $107 million and $190 million, respectively, increases of $31 million and $124 million over the same periods in 2011. The increases in both periods reflect higher corporate expenses primarily due to employee benefits, an increase in assumed losses related to internal reinsurance programs growth, higher depreciation charges related to Liberty Energy, and a decrease in ceded losses and expenses associated with the homeowners quota share treaty, partially offset by a decrease in the amount of incurred losses attributable to prior years primarily related to pre-2011 workers compensation business assumed from Commercial Markets. The increase in the year was also impacted by the commutation of two workers compensation retroactive reinsurance agreements that occurred in 2011, partially offset by a decrease in interest expense as a result of debt repurchases in 2011.

INVESTMENTS

General

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

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

Invested Assets (including cash and cash equivalents)

The following table summarizes the Company's invested assets by asset category as of June 30, 2012 and December 31, 2011:

$ in Millions	**As of June 30, 2012**		**As of December 31, 2011**	
Invested Assets by Type	**Carrying Value**	**% of Total**	**Carrying Value**	**% of Total**
Fixed maturities, available for sale, at fair value	$61,967	82.0%	$60,576	82.2%
Equity securities, available for sale, at fair value	2,165	2.9	1,954	2.7
LPs and LLCs	3,814	5.0	3,389	4.6
Commercial mortgage loans	1,236	1.6	1,196	1.6
Short-term investments	329	0.4	201	0.3
Other investments	595	0.8	400	0.5
Cash and cash equivalents	5,527	7.3	5,972	8.1
Total invested assets	$75,633	100.0%	$73,688	100.0%

Total invested assets as of June 30, 2012 were $75.633 billion, an increase of $1.945 billion or 2.6% over December 31, 2011. The increase reflects an increase in unrealized gains related to decreases in interest rates, positive equity market performance, and the reinvestment of cash flow from operations.

Fixed maturities as of June 30, 2012 were $61.967 billion, an increase of $1.391 billion or 2.3% over December 31, 2011. The increase reflects investment of cash associated with the QIL acquisition, an increase in unrealized gains related to decreases in interest rates, and the reinvestment of cash flow from operations. As of June 30, 2012, the Company had commitments to purchase various corporate and municipal securities at a cost and fair value of $184 million and $182 million, respectively.

Equity securities available for sale as of June 30, 2012 were $2.165 billion ($1.792 billion common stock and $373 million preferred stock) versus $1.954 billion as of December 31, 2011 ($1.608 billion common stock and $346 million preferred stock), an increase of $211 million or 10.8% over December 31, 2011. Of

the $1.792 billion of common stock at June 30, 2012, $278 million relates to securities associated with non-guaranteed unit linked products where the policyholder bears the investment risk. The increase in total equity securities available for sale was consistent with the Company's continued investment in this asset class as well as broader equity market performance.

Investments in LPs and LLCs as of June 30, 2012 were $3.814 billion, an increase of $425 million or 12.5% over December 31, 2011. These investments consist of traditional private equity partnerships of $2.098 billion, other partnerships (primarily energy) of $1.066 billion, and real estate partnerships of $650 million. The increase reflects improved valuations and new investments. The Company's investments in LPs and LLCs are long-term in nature and highly illiquid. The Company believes these investments offer the potential for superior long-term returns and are appropriate in the overall context of a diversified portfolio.

As of June 30, 2012, the Company had unfunded commitments in traditional private equity partnerships, real estate, energy, and other of $896 million, $437 million, $773 million, and $380 million, respectively.

Commercial mortgage loans as of June 30, 2012 were $1.236 billion (net of $19 million of loan loss reserves or 1.5% of the outstanding loan portfolio), an increase of $40 million or 3.3% over December 31, 2011. The increase primarily reflects a $78 million increase in loans, partially offset by $37 million in principal repayments and an increase of $1 million to the loan loss reserve. The entire commercial loan portfolio is U.S. based. As of June 30, 2012, the average total loan size was $1 million and the average loan participation size was less than $1 million. The number of loans in the portfolio increased from 3,272 at December 31, 2011 to 3,495 at June 30, 2012. Approximately 91% of the loans are full or partial recourse to borrowers.

Cash and cash equivalents as of June 30, 2012 were $5.527 billion, a decrease of $445 million or 7.5% from December 31, 2011. The decrease was primarily related to the investment of cash and cash equivalents associated with the QIL acquisition into fixed maturities.

Regarding fair value measurements, as of June 30, 2012, excluding separate accounts and other assets, the Company reflected $3.943 billion (6.1%) as level 1 (quoted prices in active markets) primarily consisting of U.S. Treasuries and common equity securities. The majority of the Company's invested assets are reported as level 2 (quoted prices from other observable inputs). As of June 30, 2012, the Company reported $59.505 billion (91.9%) as level 2, consisting primarily of various fixed maturity securities. Finally, the Company reported $1.311 billion (2.0%) as level 3 (unobservable inputs), primarily consisting of international and privately held securities for which a market price is not readily observable.

As of June 30, 2012, no single issuer, excluding U.S. Treasuries, agency securities and mortgage-backed securities, accounted for more than 1.5% of invested assets.

The following tables summarize the Company's available for sale portfolio by security type as of June 30, 2012 and December 31, 2011:

$ in Millions **June 30, 2012**	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. government and agency securities	$2,856	$303	($-)	$3,159
Residential MBS [1]	8,075	520	(22)	8,573
Commercial MBS	1,916	69	(2)	1,983
Other MBS and ABS [2]	1,650	144	(2)	1,792
U.S. state and municipal	12,761	1,301	(20)	14,042
Corporate and other	25,327	1,884	(168)	27,043
Foreign government securities	5,276	187	(88)	5,375
Total fixed maturities	57,861	4,408	(302)	61,967
Common stock	1,618	284	(110)	1,792
Preferred stock	422	23	(72)	373
Total equity securities	2,040	307	(182)	2,165
Total securities available for sale	$59,901	$4,715	($484)	$64,132

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

$ in Millions **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

The following table summarizes the Company's mortgage and asset-backed fixed maturity portfolio by credit quality as of June 30, 2012:

$ in Millions	As of June 30, 2012							
Mortgage & Asset-Backed Fixed Maturities by Credit Quality[1]	**AAA**	**AA**	**A**	**BBB**	**BB**	**B or Lower**	**Total**	**% of Total**
SBA loans	$1,462	$-	$-	$-	$-	$-	$1,462	11.8%
GNMA residential mortgage	3,354	5	-	-	-	-	3,359	27.2
FNMA residential mortgage	2,626	-	-	-	-	-	2,626	21.3
FHLMC residential mortgage	2,078	-	-	-	-	-	2,078	16.8
Prime residential mortgage	23	29	19	13	6	212	302	2.4
Alt-A residential mortgage	-	1	18	8	16	118	161	1.3
Sub-prime residential mortgage	14	-	-	4	6	23	47	0.4
Commercial MBS	1,838	110	8	21	6	-	1,983	16.1
Non-mortgage ABS	195	21	24	68	5	17	330	2.7
Total	$11,590	$166	$69	$114	$39	$370	$12,348	100.0 %
% of Total	93.9%	1.3%	0.6%	0.9%	0.3%	3.0%	100.0%	

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

Approximately 77.1% of the Company's securitized portfolio is explicitly backed by the U.S. government (GNMA and SBA) or by government-sponsored entities (FHLMC and FNMA). Over 93% of the mortgage and asset-backed holdings are rated AAA. The commercial mortgage-backed securities portfolio is well diversified and of high quality with approximately 98% rated AA or above with 15.1% of the underlying collateral having been defeased with U.S. Treasuries.

The following table summarizes the Company's allocation of fixed maturities by credit quality as of June 30, 2012 and December 31, 2011:

$ in Millions	As of June 30, 2012		As of December 31, 2011	
Fixed Maturities by Credit Quality[1]	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
AAA	$21,000	33.9%	$21,732	36.0%
AA+, AA, AA-	10,133	16.4	10,445	17.2
A+, A, A-	12,842	20.7	11,646	19.2
BBB+, BBB, BBB-	11,864	19.1	10,289	17.0
BB+, BB, BB-	2,061	3.3	2,202	3.6
B+, B, B-	3,192	5.2	3,330	5.5
CCC or lower	875	1.4	932	1.5
Total fixed maturities	$61,967	100.0 %	$60,576	100.0%

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

The Company's allocation to investment grade securities as of June 30, 2012 was 90.1%, a slight increase over the December 31, 2011 allocation of 89.4%. Overall, the average credit quality rating stands at A+ as of June 30, 2012. The Company's holdings of below investment grade securities primarily consist of an actively managed diversified portfolio of high yield securities and loans within the domestic insurance portfolios and investments in emerging market sovereign and corporate debt primarily in support of the Company's international insurance companies.

The following table summarizes the Company's allocation of fixed maturities by maturity date as of June 30, 2012 and December 31, 2011:

$ in Millions	As of June 30, 2012		As of December 31, 2011	
Fixed Maturities by Maturity Date	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
1 year or less	$3,118	5.1%	$2,847	4.7%
Over 1 year through 5 years	18,795	30.3	17,738	29.3
Over 5 years through 10 years	15,443	24.9	14,489	23.9
Over 10 years	12,263	19.8	12,073	19.9
MBS and ABS	12,348	19.9	13,429	22.2
Total fixed maturities	$61,967	100.0%	$60,576	100.0%

During 2012, after taking into consideration changes in investment opportunities and its view of the current and prospective business and economic environment, the Company 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 six months ended June 30, 2012 and 2011:

$ in Millions	Three Months Ended June 30,		Six Months Ended June 30,	
Net Investment Income	**2012**	**2011**	**2012**	**2011**
Taxable interest income	$ 628	$628	$ 1,263	$1,226
Tax-exempt interest income	112	118	228	235
Dividends	17	13	28	24
LP and LLC income	91	128	212	338
Commercial mortgage loans	20	19	39	38
Other investment loss	(2)	(4)	(6)	(2)
Gross investment income	866	902	1,764	1,859
Investment expenses	(34)	(28)	(70)	(70)
Net investment income	$ 832	$874	$1,694	$1,789

Net investment income for the three and six months ended June 30, 2012 was $832 million and $1.694 billion, respectively, decreases of $42 million and $95 million from the same periods in 2011. The decreases in both periods primarily reflect valuation changes in LP and LLC investments. Year-to-date, the decrease was partially offset by an increase in taxable interest income due to a higher invested asset base as a result of the acquisition of QIL as well as continued reinvestment of cash flow from operations.

Net Realized Gains (Losses)

The following tables summarize the Company's net realized gains (losses) for the three and six months ended June 30, 2012 and 2011:

$ in Millions **Net Realized Gains (Losses)**	**Sales & Dispositions**	**Impairments**	**Change in Derivatives Value**	**Total**
Three Months Ended June 30, 2012:				
Fixed maturities	$56	($28)	$-	$28
Common and preferred stock	20	(13)	-	7
Other	137	-	-	137
Total	$213	($41)	$-	$172
Three Months Ended June 30, 2011:				
Fixed maturities	$32	($12)	$-	$20
Common and preferred stock	14	(1)	-	13
Other	18	-	-	18
Total	$64	($13)	$-	$51

$ in Millions **Net Realized Gains (Losses)**	**Sales & Dispositions**	**Impairments**	**Change in Derivatives Value**	**Total**
Six Months Ended June 30, 2012:				
Fixed maturities	$109	($42)	$-	$67
Common and preferred stock	43	(24)	-	19
Other	135	-	-	135
Total	$287	($66)	$-	$221
Six Months Ended June 30, 2011:				
Fixed maturities	$75	($30)	$-	$45
Common and preferred stock	54	(1)	-	53
Other	29	-	-	29
Total	$158	($31)	$-	$127

$ in Millions	Three Months Ended June 30,		Six Months Ended June 30,	
Components of Net Realized Gains (Losses)	**2012**	**2011**	**2012**	**2011**
Fixed maturities:				
Gross realized gains	$70	$62	$ 135	$116
Gross realized losses	(42)	(42)	(68)	(71)
Equities:				
Gross realized gains	24	17	51	58
Gross realized losses	(17)	(4)	(32)	(5)
Other:				
Gross realized gains	152	28	153	47
Gross realized losses	(15)	(10)	(18)	(18)
Total net realized gains	$172	$51	$ 221	$127

Net realized gains for the three and six months ended June 30, 2012 were $172 million and $221 million, respectively, increases of $121 million and $94 million over the same periods in 2011. The increases in both periods were primarily related to a gain on the sale of investments in the energy sector, a gain recognized from the sale of a business segment in Argentina and contingent consideration recognized in connection with the prior sale of certain Commercial Markets policy renewal rights, partially offset by increased impairments due to market volatility.

The following table summarizes the Company's unrealized losses and fair value by security type and by duration as of June 30, 2012 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	($-)	$43	($-)	$-
Residential MBS	(1)	50	(21)	297
Commercial MBS	(1)	137	(1)	35
Other MBS and ABS	-	28	(2)	10
U.S. state and municipal	(6)	316	(14)	47
Corporate and other	(64)	2,056	(104)	912
Foreign government securities	(23)	632	(65)	513
Total fixed maturities	(95)	3,262	(207)	1,814
Common stock	(50)	389	(60)	239
Preferred stock	-	-	(72)	255
Total equities	(50)	389	(132)	494
Total	($145)	$3,651	($339)	$2,308

Unrealized losses decreased from $728 million as of December 31, 2011 to $484 million as of June 30, 2012 primarily due to improvement in the equity markets, tightening of credit spreads and decline in the treasury yields. Unrealized losses less than 12 months decreased from $311 million at December 31, 2011 to $145 million as of June 30, 2012. Unrealized losses 12 months or longer decreased from $417 million as

of December 31, 2011 to $339 million as of June 30, 2012. As of June 30, 2012, there were 1,009 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.

If the Company believes a decline in the value 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 income securities, then the carrying value of the investment is written down to the expected cash flow amount and a realized loss is recorded as a credit impairment. A non-credit impairment loss is recognized in other comprehensive income, net of applicable taxes, as the difference between expected cash flows and fair value. For the three and six months ended June 30, 2012, the Company recorded $28 million and $42 million of fixed maturity impairment losses. The Company has concluded that the remaining gross unrealized losses of fixed maturity securities as of June 30, 2012 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 June 30, 2012 resulted primarily from decreases in quoted fair values from the dates that certain investment securities were acquired as opposed to fundamental changes in the issuer's financial performance and near-term financial prospects. For the three and six months ended June 30, 2012, the Company recorded $13 million and $24 million in impairment losses on equity securities. The Company has concluded that the gross unrealized losses of equity securities as of June 30, 2012 are temporary.

LIQUIDITY AND CAPITAL RESOURCES

General

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 June 30, 2012 (including cash and cash equivalents) totaled $75.633 billion.

Short-term debt and current maturities of long-term debt outstanding as of June 30, 2012 and December 31, 2011 were as follows:

$ in Millions	**As of June 30, 2012**	**As of December 31, 2011**
Commercial paper	$47	$-
Current maturities of long-term debt[1]	230	205
Total short-term debt and current maturities of long-term debt	$277	$205

[1] Primarily reflects $25 million of 7.86% Medium Term Notes and $204 million of debt originally issued by Safeco. On December 29, 2008, $187 million of the outstanding $204 million 7.25% notes due 2012 were exchanged for a like principal amount of newly issued Liberty Mutual Group Inc. ("LMGI") notes.

Long-term debt outstanding as of June 30, 2012 and December 31, 2011 was as follows:

$ in Millions	**As of June 30, 2012**	**As of December 31, 2011**
7.86% Medium term notes, due 2013	$ -	$25
8.00% Notes, due 2013	260	260
5.75% Notes, due 2014	239	500
7.30% Notes, due 2014	104	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
4.95% Notes, due 2022	500	-
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	-
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]	676	981
6.50% Notes, due 2042	500	-
7.697% Surplus notes, due 2097	260	435
Subtotal	5,827	5,389
Unamortized discount	(43)	(48)
Total long-term	$5,784	$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.

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

Debt Transactions and In-force Credit Facilities

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

On April 18, 2012, the Company announced the commencement of two tender offers. The first offer was a cash tender offer to purchase up to $350 million, subject to increase, of the aggregate principal amount of (i) LMGI's 10.75% Series C Junior Subordinated Notes due 2088 by LMGI and (ii) Liberty Mutual Insurance Company's ("LMIC") 7.697% Surplus Notes due 2097 by LMIC, each at a purchase price determined in accordance with the procedures of a modified "Dutch Auction" (the "Dutch Auction Offer"). The second offer was a cash tender offer by LMGI to purchase up to $350 million, subject to increase, of the aggregate principal amount of its 5.75% Senior Notes due 2014 and its 7.30% Senior Notes due 2014, each at a price determined by reference to a fixed spread above the bid-side yield on the applicable reference security and accepted in accordance with the acceptance priority level set forth in the tender documents (the "Waterfall Offer"). The Waterfall Offer was conditioned on LMGI issuing at least $350 million aggregate principal amount of new senior notes. The Waterfall Offer was increased to include all

notes tendered in the Waterfall Offer. The Dutch Auction Offer was increased by up to $175 million in aggregate principal amount to permit the additional purchase of the applicable notes tendered at the full tender offer consideration. The tender offers expired on May 15, 2012 and the Company paid in aggregate approximately $949 million in connection with such tender offers, including approximately $17 million in accrued and unpaid interest, to holders of the Notes involved in the tender offers. As a result of these transactions, the Company recorded pre-tax losses of $147 million that are included in loss on extinguishment of debt in the accompanying consolidated statements of operations. After completion of the tender offers, the following principal amounts remain outstanding for such notes, $676 million of the 10.75% Series C Junior Subordinated Notes due 2088, $260 million of the 7.697% Surplus Notes due 2097, $239 million of the 5.75% Senior Notes due 2014 and $104 million of the 7.30% Senior Notes due 2014.

Additionally, during the three and six months ended June 30, 2012, the Company repurchased $2 million and $41 million, respectively, of the 10.75% Junior Subordinated Notes due 2088. Pre-tax losses of $1 million and $16 million, respectively, were recorded on these transactions and are included in loss on extinguishment of debt in the accompanying consolidated statements of operations.

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") became a member of the Federal Home Loan Bank of Chicago on January 11, 2012. Membership provides the Company with access to secured asset-based borrowings with loan maturities of up to 30 years. The combined estimated borrowing capacity of the four entities is $5.2 billion. 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.

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% 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.

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

On October 17, 2011, LMGI entered into a five-year $750 million unsecured revolving credit facility which terminates on October 17, 2016. To date, no funds have been borrowed under the facility. In connection with the new facility, LMGI terminated its $400 million unsecured revolving credit facility.

The Company places commercial paper through a program issued by LMGI and guaranteed by LMIC. Effective October 17, 2011, the $400 million commercial paper program was increased to $750 million and is backed by the five-year $750 million unsecured revolving credit facility. As of June 30, 2012, there was $47 million of commercial paper outstanding.

On May 18, 2011, LMGI issued Senior Notes due 2021 (the "2021 Notes") with a face amount of $600 million. 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 million in connection with such tender offer, including approximately $5 million 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 million aggregate principal amount of the 2036 Notes. As a result of these transactions, the Company recorded a $40 million pre-tax loss in 2011. After completion of the tender offer and subsequent open market purchase, $19 million aggregate principal amount of the 2036 Notes remains outstanding.

As of June 30, 2012, the Company has $1 billion in three-year committed repurchase agreements maturing in 2013. As of June 30, 2012, no borrowings were outstanding under the agreements.

Liberty Mutual Insurance Europe Limited maintains a £10 million overdraft facility to provide working capital to the Company's international operations. As of June 30, 2012, no borrowings were outstanding under the facility.

Interest Expense

Consolidated interest expense for the three and six months ended June 30, 2012 was $106 million and $210 million, decreases of $3 million and $12 million from the same periods in 2011. The decreases reflect the completion of the tender offers, the repurchases of the 10.75% Junior Subordinated notes due 2088 and increased capitalized interest associated with the construction of the Company's new building, partially offset by the new debt issuances. The annual run-rate savings related to the debt tenders, repurchases and new debt issues is $28 million. As previously discussed, the Company continues to evaluate market conditions and may periodically effect transactions in its debt, subject to applicable limitations. Debt repurchases may be done through open market or other appropriate transactions.

Holding Company Liquidity and Capital Resources

The Company conducts substantially all of its operations through its wholly owned insurance and service company subsidiaries, and therefore is primarily dependent on dividends, distributions, loans or other payments of funds from these entities to meet its current and future obligations. However, the subsidiaries are separate and distinct legal entities and have no obligation to make funds available to the Company, whether in the form of loans, dividends or other distributions. As of June 30, 2012, the Company, through its downstream subsidiary LMGI, had $5.107 billion of debt outstanding, excluding discount. This amount includes a short-term loan of $19 million from LMIC with a maturity date of July 30, 2012.

The insurance subsidiaries' ability to pay dividends on preferred or common stock is restricted under applicable insurance laws and regulations and may be paid only from unassigned surplus. Under the insurance laws of the domiciliary states of the insurance subsidiaries, an insurer may make an ordinary dividend payment if its surplus as regards policyholders, following such dividend, is reasonable in relation to its outstanding liabilities, is adequate to meet its financial needs, and does not exceed the insurer's unassigned surplus. However, no insurer may pay an extraordinary dividend without the approval or non-disapproval of the domiciliary insurance regulatory authority. Under the insurance laws of Massachusetts, the domiciliary state of LMIC, an extraordinary dividend is defined as a dividend whose fair market value, together with other dividends made within the preceding 12 months, exceeds the greater of 10% of the insurer's surplus as regards policyholders as of the preceding December 31, or the insurer's net income for the 12-month period ending on the preceding December 31. Under the insurance laws of Wisconsin, the domiciliary state of LMFIC and Employers Insurance Company of Wausau ("EICOW"), an extraordinary dividend is defined as a dividend whose fair market value, together with other dividends paid within the preceding 12 months, exceeds the lesser of (a) 10% of the insurer's surplus as regards policyholders as of the preceding December 31, or (b) the greater of (1) the insurer's net income for the preceding calendar year, minus realized capital gains for that calendar year, or (2) the aggregate of the insurer's net income for the three preceding calendar years minus realized capital gains for those calendar years and minus dividends paid within the first two of the preceding three calendar years. Changes in the extraordinary dividend regulation of the domiciliary states of LMIC, LMFIC and EICOW could negatively affect LMGI's ability to pay principal and interest on its debt, as could a redomestication, merger or consolidation of LMIC, LMFIC or EICOW to a different domiciliary state.

The authorized control level risk-based capital (as of December 31, 2011) and 2012 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	**2011**	**2010**	**2012**	**2012**
LMIC	469%	503%	$1,359	$32
LMFIC	458%	551%	-	$8
EICOW	623%	671%	$49	-

[1] Authorized control level risk-based capital as defined by the NAIC.
[2] Represents maximum allowable dividend without prior regulatory approval in the state of domicile.
[3] Dividends paid represent amounts paid during the six months ended June 30, 2012. Available dividend capacity as of June 30, 2012 is calculated as 2012 dividend capacity less dividends paid for the preceding 12 months. Dividends paid July 1, 2011 through June 30, 2012 for LMIC, LMFIC and EICOW were $65 million, $15 million and zero, respectively.

LMGI also has access to the following sources of funding:

- A management services agreement with LMIC pursuant to which LMGI is entitled to collect certain costs plus a management fee for services rendered by LMGI employees.
- Investment management agreements with affiliated entities pursuant to which an LMGI subsidiary registered 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 six months ended June 30, 2012, LCS recorded $97 million and $198 million in pre-tax income.
- Approximately $80 million of annual dividends related to non-redeemable perpetual preferred stock issuances by LMIC and LMFIC.

Statutory Surplus

Statutory surplus as regards policyholders for the combined operations of LMIC and its U.S affiliates, including international branches, was $15.985 billion and $15.701 billion at June 30, 2012 and December 31, 2011, respectively. The increase in surplus primarily reflects net income of $71 million (the sum of earnings from the Company’s 58 domestic insurance companies and dividends from subsidiaries), unaffiliated unrealized gains of $220 million, and affiliated unrealized gains of $239 million, partially offset by repurchases of surplus notes ($172) million and other changes in surplus of ($74) million, primarily related to an increase non-admitted assets and dividends to stockholders, partially offset by an increase in capital contributions.

CRITICAL ACCOUNTING POLICIES

Critical Accounting Estimates

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

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

Certain reclassifications have been made to the 2011 amounts to conform with the 2012 presentation.

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 million, net of tax.

For the three months ended June 30, 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, and unrealized gains on securities of $(1) million, $182 million, $(167) million, $(5) million, and $1 million, respectively. For the six months ended June 30, 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 $(2) million, $348 million, $(335) million, $(4) million, $3 million, and $(2) million, respectively. As of December 31, 2011, the accounting change resulted in the following changes to previously reported balances: (decreases) increases in deferred acquisition costs, deferred income taxes, life unpaid claims and claim adjustment expenses and future policy benefits, other liabilities, unassigned equity, and accumulated other comprehensive income of $(417) million, $137 million, $(12) million, $(3) million, $(276) million, and $11 million, respectively.

Effective January 1, 2012, the Company adopted Accounting Standards Update 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 six months ended June 30, 2012 will have a material impact on the Company

Unpaid Claims and Claim Adjustment Expenses

Reserves for property-casualty unpaid claims and claim adjustment expenses were $50.595 billion and $50.228 billion as of June 30, 2012 and December 31, 2011, respectively.

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

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

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

Asbestos and Environmental

The Company's asbestos and environmental reserves for unpaid claims and claim adjustment expenses, net of reinsurance decreased $70 million from $1.332 billion as of December 31, 2011 to $1.262 billion as of June 30, 2012.

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 million.

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

The estimation of asbestos claims and associated liabilities and the analysis of environmental claims considered prevailing applicable law and certain inconsistencies of court decisions as to coverage, plaintiffs' expanded theories of liability, and the risks inherent in major litigation and other uncertainties; the Company believes that in future periods it is possible that the outcome of the continued uncertainties regarding asbestos and environmental related claims could result in 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 $13.205 billion and $13.272 billion at June 30, 2012 and December 31, 2011, respectively, net of allowance for doubtful accounts of $324 million and $326 million, respectively. Included in these balances are $971 million and $941 million of paid recoverables and $12.558 billion and $12.657 billion of unpaid recoverables, respectively.

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

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

Approximately 94% and 92% 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 June 30, 2012. Collateral held against outstanding gross reinsurance recoverable balances was $4.732 billion and $4.699 billion at June 30, 2012 and December 31, 2011, respectively.

The remaining 6% and 8% 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 June 30, 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 consolidated statement of operations.

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 million) that are amortized into income using the effective interest method over the estimated settlement periods. As of June 30, 2012, and December 31, 2011, deferred gains related to these reinsurance arrangements were $301 million and $315 million, respectively, and are included in other liabilities within the accompanying consolidated balance sheets. Interest credited to the funds held balances for the three and six months ended June 30, 2012 was $21 million and $41

million, respectively, as compared to $19 million and $49 million for the three and six months ended June 30, 2011, respectively. Deferred gain amortization was $10 million and $20 million for the three and six months ended June 30, 2012, respectively, as compared to $10 million and $109 million for the three and six months ended June 30, 2011, respectively. Reinsurance recoverables related to these transactions, including experience related profit accruals, were $1.196 billion and $1.217 billion as of June 30, 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 million, 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 million 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 a total of $275 million of reinsurance coverage for the Company and its affiliates for a U.S. hurricane or earthquake event. The reinsurance agreements are collateralized. Such collateral is provided by Mystic III using proceeds from the issuance of certain catastrophe bonds. The reinsurance agreements provide coverage based on actual reported losses by the Company and its affiliates. The Company has not recorded any recoveries under this program. Mystic III does not have any other reinsurance in force.

Impairment Losses on Investments

If the Company believes a decline in the value 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 income 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 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. 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 June 30, 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 June 30, 2012 and December 31, 2011 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 $302 million and $250 million as of June 30, 2012 and December 31, 2011, respectively and the Company's maximum exposure to loss was $438 million and $309 million as of June 30, 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 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 $2.512 billion and $2.391 billion as of June 30, 2012 and December 31, 2011, 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 $4.802 billion and $4.766 billion as of June 30, 2012 and December 31, 2011, respectively. Goodwill is tested for impairment at least annually using either a qualitative or a quantitative process. Election of the approach can be made at the reporting unit level. The reporting unit has the option to skip the qualitative test and move directly to completion of the quantitative process. The Company's SBUs are deemed reporting units. The Company utilizes the qualitative and quantitative approaches across its business units.

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

Deferred Income Taxes

The net deferred tax asset was $676 million and $952 million as of June 30, 2012 and December 31, 2011, net of a valuation allowance of $156 million and $136 million, respectively. The net decrease in the Company's net deferred income tax asset is primarily due to the change in net unrealized capital gains and losses on certain investments. The increase in the valuation allowance is primarily due to net operating losses generated in certain foreign subsidiaries where there is uncertainty in the timing and amount of realization of those losses, currency translation adjustments, and revisions to prior year amounts. 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 of accounting. Deferred income tax assets 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 certain investments, insurance loss reserves, unearned premiums, deferred policy acquisition costs, employee benefits, net operating losses and intangible assets.

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

Balance at December 31, 2011	$332
Additions for tax positions of prior years	24
Reductions for tax positions of prior years	(6)
Settlements	(12)
Balance at June 30, 2012	$338

Included in the tabular roll forward of unrecognized tax benefits is interest and penalties in the amount of $89 million and $78 million as of June 30, 2012 and December 31, 2011, respectively.

Included in the balance at June 30, 2012, is $164 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. During the three months ended June 30, 2012 and 2011, the Company recognized approximately $1 million and ($4) million in interest and penalties, respectively. During the six months ended June 30, 2012 and 2011, the Company recognized $11 million and less than $1 million in interest and penalties, respectively. The Company had approximately $95 million and $82 million of interest and penalties accrued at June 30, 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.

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 2011 direct written premium. The Company also ranks 84th on the Fortune 100 list of largest corporations in the United States based on 2011 revenue. As of December 31, 2011, LMHC had $116.851 billion in consolidated assets, $99.252 billion in consolidated liabilities, and $34.671 billion in annual consolidated revenue.

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

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

LMHC employs more than 45,000 people in more than 900 offices throughout the world. For a full description of the Company's business operations, products and distribution channels, please visit Liberty Mutual's Investor Relations web site at www.libertymutual.com/investors.