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

Quarter Ended June 30, 2013

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

The following discussion highlights significant factors influencing results of operations and changes in financial position of Liberty Mutual Holding Company Inc., the parent corporation of the Liberty Mutual Insurance group of entities (the "Company" or "LMHC"), for the three and six months ended June 30, 2013 and 2012. This Management's Discussion & Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the Company's December 31, 2012 Audited Consolidated Financial Statements, June 30, 2013 Unaudited Consolidated Financial Statements and Second Quarter 2013 Financial Supplement located on the Company's Investor Relations website at www.libertymutual.com/investors. The Company's discussions related to net income are presented in conformity with U.S. generally accepted accounting principles ("GAAP") on an after-tax basis. All other discussions are presented on a pre-tax GAAP basis, unless otherwise noted. Further, the Company notes that it may make material information regarding the Company available to the public, from time to time, via the Company's Investor Relations website at www.libertymutual.com/investors (or any successor site).

Index

	Page
Cautionary Statement Regarding Forward Looking Statements	3
Executive Summary	4
Consolidated Results of Operations	6
Review of Financial Results by Business Unit	
Personal Insurance	13
Commercial Insurance	16
Liberty International	19
Global Specialty	22
Corporate and Other	25
Investments	28
Liquidity and Capital Resources	36
Critical Accounting Policies	41
About the Company	47

Cautionary Statement Regarding Forward Looking Statements

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

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

EXECUTIVE SUMMARY

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

Three Months Ended June 30, 2013 - Consolidated Results of Operations

- Revenues for the three months ended June 30, 2013 were $9.824 billion, an increase of $667 million or 7.3% over the same period in 2012.
- Net written premium ("NWP") for the three months ended June 30, 2013 was $8.893 billion, an increase of $558 million or 6.7% over the same period in 2012.
- Pre-tax operating income ("PTOI") before LP and LLC income for the three months ended June 30, 2013 was $374 million, an increase of $326 million over the same period in 2012.
- PTOI for the three months ended June 30, 2013 was $594 million, an increase of $455 million over the same period in 2012.
- Loss on extinguishment of debt for the three months ended June 30, 2013 was $39 million, a decrease of $109 million or 73.6% from the same period in 2012. Sixty-six million dollars of debt with a 10.75% coupon was repurchased in the quarter, and $600 million of senior debt was issued with a coupon of 4.25%. Twenty-five million dollars of 7.860% Medium Term Notes matured on May 31, 2013.
- Net income attributable to LMHC for the three months ended June 30, 2013 was $448 million, an increase of $309 million over the same period in 2012.
- Cash flow from operations for the three months ended June 30, 2013 was $1.156 billion, an increase of $582 million or 101.4% over the same period in 2012.
- The consolidated combined ratio before catastrophes[1], net incurred losses attributable to prior years[2] and current accident year re-estimation[3] for the three months ended June 30, 2013 was 94.8%, a decrease of 2.7 points from the same period in 2012. Including the impact of catastrophes, net incurred losses attributable to prior years and current accident year re-estimation, the Company's combined ratio for the three months ended June 30, 2013 decreased 4.3 points to 101.5%.

Six Months Ended June 30, 2013 - Consolidated Results of Operations

- Revenues for the six months ended June 30, 2013 were $18.969 billion, an increase of $931 million or 5.2% over the same period in 2012.
- NWP for the six months ended June 30, 2013 was $17.486 billion, an increase of $1.073 billion or 6.5% over the same period in 2012.

---

[1]Catastrophes include all current accident year catastrophe losses excluding losses related to Syndicate 4472 and LMR except for the 2013 Oklahoma and Texas tornados and 2012 tornados 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 (including prior year losses related to natural catastrophes and prior year catastrophe reinstatement premium) including both earned premium attributable to prior years and amortization of retroactive reinsurance gains.

[3]Re-estimation of current accident year loss reserves for the three months ended March 31, 2013 and March 31, 2012.

- PTOI before LP and LLC income for the six months ended June 30, 2013 was $982 million, an increase of $478 million or 94.8 % over the same period in 2012.

- PTOI for the six months ended June 30, 2013 was $1.250 billion, an increase of $534 million or 74.6% over the same period in 2012.

- Loss on extinguishment of debt for the six months ended June 30, 2013 was $60 million, a decrease of $103 million or 63.2% from the same period in 2012. One hundred and four million dollars of debt with a 10.75% coupon was repurchased year-to-date, and $600 million of senior debt was issued with a coupon of 4.25%. Twenty-five million dollars of 7.860% Medium Term Notes matured on May 31, 2013.

- Net income attributable to LMHC for the six months ended June 30, 2013 was $766 million, an increase of $168 million or 28.1% over the same period in 2012.

- Cash flow from operations for the six months ended June 30, 2013 was $1.571 billion, an increase of $346 million or 28.2% over the same period in 2012.

- The consolidated combined ratio before catastrophes and net incurred losses attributable to prior years for the six months ended June 30, 2013 was 95.1%, a decrease of 1.7 points from the same period in 2012. Including the impact of catastrophes and net incurred losses attributable to prior years, the Company's combined ratio for the six months ended June 30, 2013 decreased 3.5 points to 99.9%.

Financial Condition as of June 30, 2013

- Total assets were $121.248 billion as of June 30, 2013, an increase of $1.188 billion over December 31, 2012.

- Total equity was $17.825 billion as of June 30, 2013, a decrease of $700 million from December 31, 2012.

CONSOLIDATED RESULTS OF OPERATIONS

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

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

Effective February 13, 2013, the Venezuelan government devalued its currency, announcing that the fixed official exchange rate would be changed to 6.3 Bolivares Fuertes (BsF) to 1 U.S. dollar rate. Impairment of investments and foreign exchange loss from re-measurement of monetary assets and liabilities in the amounts of $223 million and $18 million, respectively, were included in the results in the first half of 2013, along with $136 million of pre-tax operating income.

On July 24, 2012, the Company announced the realignment of its four SBUs. The four new SBUs are as follows:

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

- Commercial Insurance serves traditional domestic commercial property and casualty accounts of all sizes and includes Summit and Group Benefits. As part of the realignment, the brands for the regional companies will no longer be used and are being replaced by a regional operating model under the Liberty Mutual Insurance brand.

- Liberty International comprises local country operations.

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

All historical results have been restated to reflect this change.

Overview – Consolidated

Consolidated NWP by significant line of business was as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Private passenger automobile	$3,080	$2,800	10.0%	$6,061	$5,528	9.6%
Homeowners	1,260	1,015	24.1	2,277	1,832	24.3
Workers compensation - Voluntary	760	992	(23.4)	1,560	2,037	(23.4)
Workers compensation - Involuntary	28	28	-	61	54	13.0
Commercial multiple-peril / fire	649	643	0.9	1,276	1,283	(0.5)
Syndicate 4472	440	359	22.6	1,052	918	14.6
Commercial automobile	450	464	(3.0)	910	931	(2.3)
General liability	345	334	3.3	671	642	4.5
Group disability and group life	312	283	10.2	629	567	10.9
LIU third party	289	247	17.0	590	485	21.6
Individual life and health	247	237	4.2	485	439	10.5
Surety	178	186	(4.3)	361	358	0.8
LIU inland marine program	150	133	12.8	288	241	19.5
LIU first party	113	129	(12.4)	183	201	(9.0)
Other[1] (including AVR)	592	485	22.1	1,082	897	20.6
Total NWP[2]	$8,893	$8,335	6.7%	$17,486	$16,413	6.5%

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

Consolidated NWP by SBU was as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Personal Insurance	$3,898	$3,478	12.1%	$7,439	$6,628	12.2%
Commercial Insurance	2,231	2,412	(7.5)	4,532	4,967	(8.8)
Liberty International	1,420	1,382	2.7	2,778	2,701	2.9
Global Specialty	1,263	1,088	16.1	2,663	2,261	17.8
Corporate and Other	81	(25)	NM	74	(144)	NM
Total NWP	$8,893	$8,335	6.7%	$17,486	$16,413	6.5%
Foreign exchange effect on growth			(2.5)			(2.1)
NWP growth excluding foreign exchange[1]			9.2%			8.6%

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

Major drivers of NWP growth were as follows:

	Three Months Ended June 30,				Six Months Ended June 30,			
$ in Millions	**2013**	**2012**	**$ Change**	**Points Attribution**	**2013**	**2013**	**$ Change**	**Points Attribution**
Total NWP[1]	$8,893	$8,335	$558	6.7	$17,486	$16,413	$1,073	6.5
Components of Growth:								
Domestic personal automobile	2,233	2,004	229	2.7	4,430	3,987	443	2.7
-Domestic homeowners	1,318	1,162	156	1.9	2,368	2,085	283	1.7
-Homeowners quota share	(118)	(204)	86	1.0	(212)	(367)	155	0.9
Total domestic homeowners	1,200	958	242	2.9	2,156	1,718	438	2.6
International local businesses (ex foreign exchange)[2]	1,623	1,382	241	2.9	3,129	2,701	428	2.6
LIU (ex foreign exchange)[2]	590	527	63	0.8	1,130	966	164	1.0
Syndicate 4472 (ex foreign exchange)[2]	443	359	84	1.0	1,050	918	132	0.8
Domestic individual life	129	117	12	0.1	242	202	40	0.2
Domestic group disability and group life	218	197	21	0.3	434	393	41	0.2
Surety	178	186	(8)	(0.1)	361	358	3	-
Foreign exchange[2]	(210)	-	(210)	(2.5)	(346)	-	(346)	(2.1)
Other commercial lines	2,489	2,605	(116)	(1.4)	4,900	5,170	(270)	(1.5)
Total NWP	$8,893	$8,335	$558	6.7	$17,486	$16,413	$1,073	6.5

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

Consolidated NWP by geographic distribution channels was as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
U.S.	$6,823	$6,419	6.3%	$13,288	$12,515	6.2%
International[1]	2,070	1,916	8.0	4,198	3,898	7.7
Total NWP	$8,893	$8,335	6.7%	$17,486	$16,413	6.5%

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

NWP for the three and six months ended June 30, 2013 was $8.893 billion and $17.486 billion, respectively, increases of $558 million and $1.073 billion over the same periods in 2012. Significant changes by major line of business include:

- Private passenger automobile NWP increased $280 million and $533 million in the quarter and year-to-date, respectively. The increases in both periods primarily reflect growth of automobiles insured to over 16 million globally and rate increases (primarily in Personal Insurance) partially offset by the Venezuela devaluation.
- Homeowners NWP increased $245 million and $445 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 Insurance along with a change in terms on the external homeowners quota share treaty.
- Workers compensation - Voluntary NWP decreased $232 million and $477 million in the quarter and year-to-date, respectively. The decreases in both periods primarily reflect a decline in U.S.

new business premium and exposure reductions of nearly 30% due to disciplined underwriting and the 2012 sale of the Argentina workers compensation company, partially offset by an aggregate domestic rate increase of 11% and the "booked as billed" adjustment in Corporate and Other.

- Syndicate 4472 NWP increased $81 million and $134 million in the quarter and year-to-date, respectively. The increases in both periods primarily reflect new product growth and favorable rate increases.
- Group disability and group life NWP increased $29 million and $62 million in the quarter and year-to-date, respectively. The increases in both periods primarily reflect an increase in new business in Commercial Insurance and favorable growth primarily in Latin America (including the acquisition in Ecuador).
- LIU third party NWP increased $42 million and $105 million in the quarter and year-to-date, respectively. The increases in both periods primarily reflect business growth.
- Individual life and health NWP increased $10 million and $46 million in the quarter and year-to-date, respectively. The increases in both periods were primarily driven by structured settlement sales in Personal Insurance.
- LIU inland marine program NWP increased $17 million and $47 million in the quarter and year-to-date, respectively. The increases primarily reflect subscriber growth, pricing mix and the inception of a program in Japan in the second quarter of 2012.
- LIU first party NWP decreased $16 million and $18 million in the quarter and year-to-date, respectively. The decreases in both periods primarily reflect lower new business and renewals primarily driven by competitive environment.

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	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Revenues	$9,824	$9,157	7.3%	$18,969	$18,038	5.2%
PTOI before catastrophes, net incurred losses attributable to prior years, Venezuela devaluation, current accident year re-estimation and LP and LLC income	$834	$668	24.9%	$1,628	$1,448	12.4%
Catastrophes[1]	(617)	(702)	(12.1)	(824)	(1,059)	(22.2)
Net incurred losses attributable to prior years:						
- Asbestos & environmental	(3)	(3)	-	(4)	(5)	(20.0)
- All other[2]	89	98	(9.2)	64	120	(46.7)
Venezuela devaluation	71	-	NM	118	-	NM
Current accident year re-estimation[3]	-	(13)	(100.0)	-	-	-
PTOI before LP and LLC income	374	48	NM	982	504	94.8
LP and LLC income[4]	220	91	141.8	268	212	26.4
PTOI	594	139	NM	1,250	716	74.6
Net realized gains (losses)	63	172	(63.4)	(134)	221	NM
SBU realignment expenses	(2)	-	NM	(3)	-	NM
Loss on extinguishment of debt	(39)	(148)	(73.6)	(60)	(163)	(63.2)
Pre-tax income	616	163	NM	1,053	774	36.0
Income tax expense	169	28	NM	296	183	61.7
Consolidated net income	447	135	NM	757	591	28.1
Less: Net loss attributable to non-controlling interest	(1)	(4)	(75.0)	(9)	(7)	28.6
Net income attributable to LMHC	$448	$139	NM	$766	$598	28.1%
Cash flow from operations	$1,156	$574	101.4%	$1,571	$1,225	28.2%

1 Catastrophes include all current accident year catastrophe losses excluding losses related to Syndicate 4472 and LMR except for the 2013 Oklahoma and Texas tornados and 2012 tornados 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 and reinstatement premium attributable to prior years of $104 million and $110 million for the three and six months ended June 30, 2013 and $19 million and $33 million for the same periods in 2012. Net of amortization of deferred gains on retroactive reinsurance of $10 million and $20 million for the three and six months ended June 30, 2013 and $10 million and $21 million for the same periods in 2012.

3 Re-estimation of the current accident year loss reserves for the three months ended March 31, 2013 and March 31, 2012.

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, 2013 was $594 million and $1.250 billion, respectively, increases of $455 million and $534 million over the same periods in 2012. The increases in both periods primarily reflect lower catastrophe losses, improved Commercial Insurance and Personal Insurance results excluding catastrophes and net incurred losses attributable to prior years, higher LP and LLC income and the Venezuela devaluation, partially offset by less favorable net incurred losses attributable to prior years, higher Syndicate 4472 losses and reduced net investment income, excluding LP and LLC income, due to lower investment yields.

Revenues for the three and six months ended June 30, 2013 were $9.824 billion and $18.969 billion, respectively, increases of $667 million and $931 million over the same periods in 2012. The major components of revenues are net premium earned, net investment income, net realized gains (losses), and fee and other revenues.

Net premium earned for the three and six months ended June 30, 2013 was $8.600 billion and $16.923 billion, respectively, increases of $698 million and $1.294 billion over the same periods in 2012. The

increases in both periods primarily reflect the premium earned associated with the previously mentioned growth in 2013 and the second half of 2012.

Net investment income for the three and six months ended June 30, 2013 was $855 million and $1.591 billion, an increase of $23 million and a decrease of $103 million, respectively, versus the same periods in 2012. Both periods primarily reflect higher valuation increases in LP and LLC investments, primarily in the energy sector, and a higher invested asset base as a result of continued reinvestment of cash flow from operations. The increases are partially offset in the quarter and more than offset in the year by a reduction in taxable interest income due to lower investment yields and valuation decreases in other equity method investments.

Net realized gains (losses) for the three and six months ended June 30, 2013 were $63 million and ($134) million, respectively, versus $172 million and $221 million in the same periods in 2012. The decreases in net gains in both periods relate to gains in 2012 that did not recur in 2013 primarily in the energy sector, as well as from the sale of a business segment in Argentina and from contingent consideration recognized in connection with the prior sale of certain Commercial Insurance policy renewal rights in 2009. The loss for the six months ended June 30, 2013 primarily relates to impairment losses of $223 million recognized as a result of the Venezuela devaluation in February 2013 being deemed other-than-temporary.

Fee and other revenues for the three and six months ended June 30, 2013 were $306 million and $589 million, respectively, increases of $55 million and $95 million over the same periods in 2012. The increases primarily reflect higher oil and gas revenues in Corporate and Other due to increased production and increases in Commercial Insurance revenues from servicing carrier operations due to higher involuntary market premium volume.

Claims, benefits and expenses for the three and six months ended June 30, 2013 were $9.167 billion and $17.853 billion, respectively, increases of $321 million and $752 million over the same periods in 2012. The increases reflect overall business growth in Personal Insurance, Global Specialty, and International, less favorable incurred losses attributable to prior years, higher current year losses in Global Specialty, and higher variable compensation costs, partially offset by lower catastrophes and decreased current accident year losses in most commercial and personal lines of business.

Expenses related to the Company's realignment of its SBUs for the three and six months ended June 30, 2013 were $2 million and $3 million, respectively.

Loss on extinguishment of debt for the three and six months ended June 30, 2013 was $39 million and $60 million, respectively, decreases of $109 million and $103 million from the same periods in 2012. One-hundred and four million dollars of debt with a 10.75% coupon was repurchased year-to-date, and $600 million of senior debt was issued with a coupon of 4.25%. Twenty-five million dollars of 7.860% Medium Term Notes matured on May 31, 2013.

Income tax expense for the three and six months ended June 30, 2013 was $169 million and $296 million, respectively, increases of $141 million and $113 million over the same periods in 2012. The Company's effective tax rate for the three and six months ended June 30, 2013 was 27% and 28% versus 17% and 24% for the same periods in 2012. The increases in the effective tax rates for the three and six months ended June 30, 2013 over 2012 is due to higher pre-tax income and lower foreign tax benefits in 2013. The Company's effective tax rate differs from the Federal statutory rate of 35% principally due to tax-exempt investment income, general business credits, and foreign taxes.

Net income attributable to LMHC for the three and six months ended June 30, 2013 was $448 million and $766 million, respectively, increases of $309 million and $168 million over the same periods in 2012.

Cash flow from operations for the three and six months ended June 30, 2013 was $1.156 billion and $1.571 billion, respectively, increases of $582 million and $346 million over the same periods in 2012. The increases in both periods reflect a change in terms in the homeowners quota share treaty, favorable collections due to written premium growth and a workers compensation residual market litigation

settlement. In addition the increase in the year was driven by an Ireland reserve settlement with the Quinn Insurance Limited ("QIL") administrators and a federal income tax refund received in 2012, partially offset by a higher pension plan contribution in 2013.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2013[1]	2012	Change (Points)	2013[1]	2012	Change (Points)
Combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation						
Claims and claim adjustment expense ratio	64.3%	67.8%	(3.5)	64.7%	67.3%	(2.6)
Underwriting expense ratio	30.4	29.5	0.9	30.3	29.3	1.0
Dividend ratio	0.1	0.2	(0.1)	0.1	0.2	(0.1)
Subtotal	94.8	97.5	(2.7)	95.1	96.8	(1.7)
Catastrophes[2]	7.7	9.3	(1.6)	5.1	7.1	(2.0)
Net incurred losses attributable to prior years:						
- Asbestos & environmental	0.1	0.2	(0.1)	0.1	0.3	(0.2)
- All other	(1.1)	(1.4)	0.3	(0.4)	(0.8)	0.4
Current accident year re-estimation[3]	-	0.2	(0.2)	-	-	-
Total combined ratio[4]	101.5%	105.8%	(4.3)	99.9%	103.4%	(3.5)

1 2013 combined ratio has been adjusted to exclude the impact of the Venezuela devaluation for comparative purposes.

2 Catastrophes include all current accident year catastrophe losses excluding losses related to Syndicate 4472 and LMR except for the 2013 Oklahoma and Texas tornados and 2012 tornados and other severe storms in the U.S. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

3 Re-estimation of the current accident year loss reserves for the three months ended March 31, 2013 and March 31, 2012.

4 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, 2013 was 94.8% and 95.1%, decreases of 2.7 points and 1.7 points from the same periods in 2012. The decreases in the claims and claim adjustment expense ratio for both periods reflect a decrease in current accident year losses across most lines of business in Commercial Insurance and Personal Insurance partially offset by large losses in Syndicate 4472, and an increase in current year losses in inland marine. The increase in the underwriting expense ratio reflects the sale of Liberty ART S.A. due to Liberty ART S.A. having a low expense ratio, higher commission expense, start-up costs associated with the new operations in Ecuador, the United Kingdom, and India, an increase in variable compensation costs due to improved operating results and increased investment in growth-related items (primarily captive sales representatives, advertising and information 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, 2013 was 101.5% and 99.9%, decreases of 4.3 points and 3.5 points from the same periods in 2012. The decreases in both periods reflect the changes in the combined ratio previously discussed as well as lower catastrophe losses incurred in 2013 compared to 2012.

PERSONAL INSURANCE

Overview – Personal Insurance

Personal Insurance sells automobile, homeowners and other types of property and casualty insurance coverage, as well as life and annuity products, to individuals in the United States. Personal Insurance is comprised of two market segments: Personal Lines and Safeco. Personal Lines products are distributed through more than 2,400 licensed captive sales representatives, approximately 500 licensed telesales counselors, third-party producers (including banks for life products) and the Internet. Personal Lines' largest source of new business is through its over 15,000 sponsored affinity groups (including employers, professional and alumni associations, credit unions, and other partnerships). Safeco products are distributed nationally through independent agents.

Effective in the third quarter of 2012, Personal Insurance became a new SBU replacing the former Personal Markets SBU. The financial results of Personal Insurance differ from Personal Markets results principally due to the addition of Safeco. As such, results of Personal Insurance are not directly comparable to the previously reported financial information for Personal Markets. All prior periods have been restated to reflect this change.

Personal Insurance NWP by market segment was as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Personal Lines	$2,285	$2,075	10.1%	$4,342	$3,921	10.7%
Safeco	1,613	1,403	15.0	3,097	2,707	14.4
Total NWP	$3,898	$3,478	12.1%	$7,439	$6,628	12.2%

Personal Insurance NWP by line of business was as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Private passenger automobile	$2,232	$2,003	11.4%	$4,424	$3,982	11.1%
Homeowners and other	1,540	1,361	13.2	2,778	2,451	13.3
Individual life	126	114	10.5	237	195	21.5
Total NWP	$3,898	$3,478	12.1%	$7,439	$6,628	12.2%

NWP for the three and six months ended June 30, 2013 was $3.898 billion and $7.439 billion, respectively, increases of $420 million and $811 million over the same periods in 2012.

Private passenger automobile NWP for the three and six months ended June 30, 2013 was $2.232 billion and $4.424 billion, respectively, increases of $229 million and $442 million over the same periods in 2012. The increases reflect 6.9% growth in auto policies in-force as compared to June 30, 2012 as well as rate increases.

Homeowners and other NWP for the three and six months ended June 30, 2013 was $1.540 billion and $2.778 billion, respectively, increases of $179 million and $327 million over the same periods in 2012. The increases reflect 6.6% growth in homeowners policies in-force as compared to June 30, 2012 as well as rate increases.

Individual life NWP for the three and six months ended June 30, 2013 was $126 million and $237 million, respectively, increases of $12 million and $42 million over the same periods in 2012. The increases were primarily driven by structured settlement sales.

Results of Operations – Personal Insurance

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Revenues	$3,940	$3,577	10.1%	$7,715	$7,048	9.5%
PTOI before catastrophes and net incurred losses attributable to prior years	$681	$553	23.1%	$1,222	$1,119	9.2%
Catastrophes[1]	(542)	(614)	(11.7)	(711)	(839)	(15.3)
Net incurred losses attributable to prior years	6	32	(81.3)	(10)	46	NM
Pre-tax operating income (loss)	$145	($29)	NM	$501	$326	53.7%

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

Pre-tax operating income (loss) for the three and six months ended June 30, 2013 was $145 million and $501 million, respectively, versus ($29) million and $326 million in the same periods in 2012. Both periods benefited from higher net earned premium, favorable current accident year non-catastrophe loss experience, lower current year catastrophes, and favorable development on prior year catastrophes. These items were partially offset by unfavorable non-catastrophe prior year loss development in the auto liability line.

Revenues for the three and six months ended June 30, 2013 were $3.940 billion and $7.715 billion, respectively, increases of $363 million and $667 million over the same periods in 2012. The major components of revenues are net premium earned, net investment income, and fee and other revenues.

Net premium earned for the three and six months ended June 30, 2013 was $3.610 billion and $7.070 billion, respectively, increases of $363 million and $672 million over the same periods in 2012. The increases in both periods reflect the premium earned associated with the changes in NWP previously discussed and NWP growth during the second half of 2012.

Net investment income for the three and six months ended June 30, 2013 was $260 million and $514 million, respectively, decreases of $9 million and $18 million from the same periods in 2012. The decreases were driven by a lower yield, partially offset by an increase in the invested asset base.

Fee and other revenues for the three and six months ended June 30, 2013 were $66 million and $126 million, respectively, increases of $4 million and $8 million over the same periods in 2012. The increases in both periods were driven by written premium growth and additional fees associated with single premium whole life policies.

Claims, benefits and expenses for the three and six months ended June 30, 2013 were $3.791 billion and $7.209 billion, respectively, increases of $184 million and $487 million over the same periods in 2012. Both periods experienced an increase consistent with business growth as well as unfavorable non-catastrophe prior year loss development in the auto liability line. These items were partially offset by lower current year catastrophes and favorable development on prior year catastrophes.

PERSONAL INSURANCE	Three Months Ended June 30, 2013	2012	Change (Points)	Six Months Ended June 30, 2013	2012	Change (Points)
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	58.4%	60.9%	(2.5)	60.0%	60.8%	(0.8)
Underwriting expense ratio	25.9	26.0	(0.1)	26.0	25.9	0.1
Subtotal	84.3	86.9	(2.6)	86.0	86.7	(0.7)
Catastrophes[1]	15.6	19.6	(4.0)	10.4	13.5	(3.1)
Net incurred losses attributable to prior years	(0.2)	(1.0)	0.8	0.1	(0.7)	0.8
Total combined ratio	99.7%	105.5%	(5.8)	96.5%	99.5%	(3.0)

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

The Personal Insurance combined ratio before catastrophes and net incurred losses attributable to prior years for the three and six months ended June 30, 2013 was 84.3% and 86.0%, respectively, decreases of 2.6 points and 0.7 points from the same periods in 2012. The decreases in the claims and claim adjustment expense ratio in both periods reflect favorable loss experience across most lines of business. The increase in the underwriting expense ratio for the year is primarily the result of an investment in information technology and growth-related items, such as increased captive sales representatives and higher advertising expenditures. The decrease in the underwriting expense ratio for the quarter is primarily due to earned premium growing at a faster rate than the previously mentioned drivers of the year-to-date increase in 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, 2013 was 99.7% and 96.5%, respectively, decreases of 5.8 points and 3.0 points from the same periods in 2012. In addition to the changes in the combined ratio previously discussed, decreases in both periods were driven by lower current year catastrophe losses and favorable development on prior year catastrophes. These items were partially offset by unfavorable non-catastrophe prior year loss development in the auto liability line of business.

COMMERCIAL INSURANCE

Overview – Commercial Insurance

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

Effective in the third quarter of 2012, Commercial Insurance was formed by combining the Regional Companies Group, which was previously part of the Liberty Mutual Agency Corporation ("LMAC") strategic business unit, and the Commercial Markets strategic business unit, excluding LMR, which is now part of Global Specialty. All prior periods have been restated to reflect the realignment.

Commercial Insurance NWP by market segment was as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Business Insurance	$1,449	$1,562	(7.2%)	$2,920	$3,245	(10.0%)
National Insurance	523	607	(13.8)	1,097	1,232	(11.0)
Group Benefits	218	196	11.2	433	392	10.5
Other Commercial Insurance	41	47	(12.8)	82	98	(16.3)
Total NWP	$2,231	$2,412	(7.5%)	$4,532	$4,967	(8.8%)

Commercial Insurance NWP by line of business was as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Workers compensation - Voluntary	$640	$834	(23.3%)	$1,416	$1,865	(24.1%)
Workers compensation - Involuntary	28	28	-	61	54	13.0
Commercial multiple-peril	485	496	(2.2)	968	1,015	(4.6)
Commercial automobile	360	376	(4.3)	702	736	(4.6)
General liability	273	273	-	536	527	1.7
Group disability and group life	218	196	11.2	433	392	10.5
Other lines	227	209	8.6	416	378	10.1
Total NWP	$2,231	$2,412	(7.5%)	$4,532	$4,967	(8.8%)

NWP for the three and six months ended June 30, 2013 was $2.231 billion and $4.532 billion, respectively, decreases of $181 million and $435 million from the same periods in 2012. The decreases in both periods, particularly in workers compensation (which had exposure reductions of nearly 30% and 11% rate increases in both periods), reflect a decline in new business premium, exposure reductions, and a decrease in premium related to retrospectively rated contracts, partially offset by rate increases and higher group disability and group life premium due to new business growth.

Results of Operations – Commercial Insurance

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Revenues	$2,660	$2,810	(5.3%)	$5,367	$5,599	(4.1%)
PTOI before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation	$218	$194	12.4%	$452	$375	20.5%
Catastrophes[1]	(102)	(161)	(36.6)	(142)	(321)	(55.8)
Net incurred losses attributable to prior years[2]	59	44	34.1	94	113	(16.8)
Current accident year re-estimation[3]	-	(13)	(100.0)	-	-	-
PTOI	$175	$64	173.4%	$404	$167	141.9%

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

2 Net of earned premium attributable to prior years of ($3) million and ($8) million for the three and six months months ended June 30, 2013 and $11 million and $21 million for the same periods in 2012. Net of amortization of deferred gains on assumed retroactive reinsurance of zero and $1 million for the three and six months ended June 30, 2013 and for the same periods in 2012.

3 Re-estimation of the current accident year loss reserves for the three months ended March 31, 2013 and March 31, 2012.

PTOI for the three and six months ended June 30, 2013 was $175 million and $404 million, respectively, increases of $111 million and $237 million over the same periods in 2012. The increases in both periods were driven by decreased current accident year losses across all lines of business, partially offset by lower net investment income, higher variable compensation costs, and increased information technology expenditures. Both periods reflect lower catastrophe losses and more favorable development in prior accident year catastrophe losses. The year was further impacted by less favorable net incurred property losses attributable to prior years.

Revenues for the three and six months ended June 30, 2013 were $2.660 billion and $5.367 billion, respectively, decreases of $150 million and $232 million from the same periods in 2012. The major components of revenues are net premium earned, net investment income and fee and other revenues.

Net premium earned for the three and six months ended June 30, 2013 was $2.288 billion and $4.626 billion, respectively, decreases of $123 million and $175 million from the same periods in 2012. The decreases in both periods reflect lower NWP as previously discussed.

Net investment income for the three and six months ended June 30, 2013 was $280 million and $561 million, respectively, decreases of $40 million and $79 million from the same periods in 2012. The decreases in both periods were primarily driven by lower investment yields partially offset by a higher invested asset base.

Fee and other revenues for the three and six months ended June 30, 2013 were $93 million and $181 million, respectively, increases of $15 million and $24 million over the same periods in 2012. The increases in both periods reflect higher commission revenue from servicing carrier operations due to higher involuntary market premium volume, and third-party administrator fee income. As a servicing carrier, the Company receives fee income for performing certain underwriting, claims and administrative services for all participating involuntary pool members.

Claims, benefits, and expenses for the three and six months ended June 30, 2013 were $2.486 billion and $4.964 billion, decreases of $259 million and $467 million from the same period in 2012. The decreases in both periods were driven by lower catastrophe losses, decreased current accident year losses across all lines of business, and more favorable development in prior accident year catastrophe losses, partially offset by higher variable compensation costs and increased information technology expenditures. The year was further impacted by less favorable net incurred property losses attributable to prior years.

	Three Months Ended June 30,			Six Months Ended June 30,		
			Change			Change
COMMERCIAL INSURANCE	**2013**	**2012**	**(Points)**	**2013**	**2012**	**(Points)**
Combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation						
Claims and claim adjustment expense ratio	71.2%	76.9%	(5.7)	71.2%	76.8%	(5.6)
Underwriting expense ratio	30.9	28.8	2.1	30.3	28.9	1.4
Dividend ratio	0.4	0.5	(0.1)	0.4	0.4	-
Subtotal	102.5	106.2	(3.7)	101.9	106.1	(4.2)
Catastrophes[1]	4.9	7.3	(2.4)	3.4	7.3	(3.9)
Net incurred losses attributable to prior years[2]	(2.9)	(2.1)	(0.8)	(2.2)	(2.6)	0.4
Current accident year re-estimation[3]	-	0.6	(0.6)	-	-	-
Total combined ratio	104.5%	112.0%	(7.5)	103.1%	110.8%	(7.7)

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

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, 2013 and March 31, 2012.

The Commercial Insurance combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation for the three and six months ended June 30, 2013 was 102.5% and 101.9%, respectively, decreases of 3.7 points and 4.2 points from the same periods in 2012. The claims and claim adjustment expense ratio for both periods was impacted by decreased current accident year losses across all lines of business. The increase in the underwriting expense ratio in both periods reflects higher variable compensation costs, lower earned premium, and increased information technology expenditures.

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, 2013 was 104.5% and 103.1%, respectively, decreases of 7.5 points and 7.7 points from the same periods in 2012. The decreases in both periods reflect the changes to the combined ratio discussed above, lower catastrophe losses, and more favorable development in prior accident year catastrophe losses. The year was further impacted by less favorable net incurred property losses attributable to prior years.

LIBERTY INTERNATIONAL

Overview – Liberty International

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

The International SBU was realigned effective in the third quarter of 2012. The financial results differ principally due to the removal of the results of operation of LIU, including its Syndicate 4472. As such, the results of Liberty International are not directly comparable to the previously reported financial information for the International SBU. All prior periods have been restated to reflect this change.

Liberty International NWP by market segment was as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Latin America	$869	$882	(1.5%)	$1,733	$1,775	(2.4%)
Europe	425	396	7.3	796	719	10.7
Asia	124	104	19.2	247	207	19.3
India	2	-	NM	2	-	NM
Total NWP	$1,420	$1,382	2.7%	$2,778	$2,701	2.9%
Foreign exchange effect on growth			(14.7)			(13.0)
NWP growth excluding foreign exchange[1]			17.4%			15.9%

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

Liberty International NWP by line of business was as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Private passenger automobile	$847	$796	6.4%	$1,631	$1,541	5.8%
Commercial automobile	89	90	(1.1)	207	196	5.6
Homeowners	60	57	5.3	121	114	6.1
Life and health	212	206	2.9	438	411	6.6
Other [1]	212	233	(9.0)	381	439	(13.2)
Total NWP	$1,420	$1,382	2.7%	$2,778	$2,701	2.9%

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

NWP for the three and six months ended June 30, 2013 was $1.420 billion and $2.778 billion, respectively, increases of $38 million and $77 million over the same periods in 2012. The increases in both periods reflect organic growth across all the regions, primarily in Latin America, led by the impact of inflation in Venezuela and the acquisition in Ecuador, followed by Europe, mainly attributable to the addition of the United Kingdom, and to a lesser extent, Asia, led by Thailand. The increases were partially offset by the impact of foreign exchange (approximately $203 million in the quarter and $351 million in the year, primarily driven by the Venezuela devaluation and to a lesser extent, a weakened Brazilian real), as well as the sale of Liberty ART S.A.

Results of Operations – Liberty International

	Three Months Ended June 30,			**Six Months Ended June 30,**		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Revenues	$1,585	$1,495	6.0%	$2,927	$2,981	(1.8%)
PTOI before catastrophes, net incurred losses attributable to prior years and Venezuela devaluation	$33	$60	(45.0%)	$80	$125	(36.0%)
Catastrophes[1]	-	-	-	-	-	-
Net incurred losses attributable to prior years[2]	17	5	NM	19	(9)	NM
Venezuela devaluation	71	-	NM	121	-	NM
PTOI	$121	$65	86.2%	$220	$116	89.7%

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

2 Net of earned premium attributable to prior years of zero for the three and six months ended June 30, 2013, and zero and ($1) million for the same periods in 2012.

NM = Not Meaningful

PTOI for the three and six months ended June 30, 2013 was $121 million and $220 million, respectively, increases of $56 million and $104 million over the same periods in 2012. The increases in both periods reflect the impact of the Venezuela devaluation and favorable net incurred losses attributable to prior years mainly driven by Liberty ART S.A.'s unfavorable development in 2012 that did not recur, partially offset by unfavorable underwriting results from the United Kingdom primarily driven by loss frequency and severity. The increase in the quarter was also partially offset by unfavorable underwriting results from Spain mainly due to increased loss frequency.

Revenues for the three and six months ended June 30, 2013 were $1.585 billion and $2.927 billion, an increase of $90 million in the quarter and a decrease of $54 million in the year. The primary components of revenues are net premium earned, net investment income and net realized investment gains (losses).

Net premium earned for the three and six months ended June 30, 2013 was $1.432 billion and $2.860 billion, increases of $111 million and $205 million over the same periods in 2012. The increases in both periods reflect the previously mentioned growth in NWP in 2013 and the second half of 2012, partially offset by the impact of foreign exchange.

Net investment income for the three and six months ended June 30, 2013 was $108 million and $214 million, decreases of $3 million and $11 million from the same periods in 2012. The decreases in both periods reflect reduced net investment income from Liberty ART S.A. due to the sale of the company. The impact from a higher invested asset base due to the reinvestment of cash flow from operations, driven by the growth in net written premium, was largely offset by a decrease in overall investment yields due to lower reinvestment rates, primarily in Brazil and Western Europe.

Net realized gains (losses) for the three and six months ended June 30, 2013 were $5 million and ($225) million, decreases of $13 million and $242 million from the same periods in 2012. The decrease in the year was primarily driven by an impairment of Venezuelan BsF denominated investments recognized as a result of the Venezuela devaluation.

Claims, benefits and expenses for the three and six months ended June 30, 2013 were $1.459 billion and $2.932 billion, increases of $47 million and $84 million over the same periods in 2012. The increases in both periods reflect organic growth, consistent with the comments in the NWP paragraph above, as well as the addition of Ecuador and the United Kingdom, partially offset by the sale of Liberty ART S.A. The increase in the year also reflects the foreign exchange loss (approximately $17 million, primarily the result of the Venezuela devaluation), and expense in 2013 related to enhancements to global technology infrastructure compared to 2012.

	Three Months Ended June 30,			**Six Months Ended June 30,**		
INTERNATIONAL	**2013[1]**	**2012**	**Change (Points)**	**2013[1]**	**2012**	**Change (Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	66.5%	66.7%	(0.2)	66.0%	67.4%	(1.4)
Underwriting expense ratio	39.3	36.9	2.4	39.1	36.1	3.0
Subtotal	105.8	103.6	2.2	105.1	103.5	1.6
Catastrophes[2]	-	-	-	-	-	-
Net incurred losses attributable to prior years	(1.2)	(0.4)	(0.8)	(0.7)	0.3	(1.0)
Total combined ratio	104.6%	103.2%	1.4	104.4%	103.8%	0.6

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

The combined ratio before catastrophes and net incurred losses attributable to prior years for the three and six months ended June 30, 2013 was 105.8% and 105.1%, respectively, increases of 2.2 points and 1.6 points over the same periods in 2012. The increases in the underwriting expense ratio reflect unfavorable commission expense in Venezuela due to increased competition, the start-up costs associated with the new operations in Ecuador, the United Kingdom and India, and the sale of Liberty ART S.A. due to Liberty ART S.A. having a low expense ratio in the prior period. The combined ratio increase in the year also reflects an increase in expense in 2013 related to enhancements to global technology infrastructure compared to 2012, partially offset by a decrease in the claims and claim adjustment expense ratio primarily driven by Venezuela as a result of improved pricing and lower frequency in the automobile line of business and higher rate in Brazil.

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, 2013 was 104.6% and 104.4%, respectively, increases of 1.4 points and 0.6 points over the same periods in 2012. The total combined ratio in both periods reflects the changes in the combined ratio previously discussed, as well as favorable net incurred losses attributable to prior years mainly driven by unfavorable development in Liberty ART S.A. in the prior year that did not recur.

GLOBAL SPECIALTY

Overview – Global Specialty

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

The Global Specialty SBU was formed during the third quarter of 2012. The SBU is comprised of: LIU (including Syndicate 4472), formerly part of International; LMS, formerly part of LMAC and LMR, formerly part of Commercial Markets. All prior periods have been restated to reflect this change.

Global Specialty NWP by market segment was as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
LIU	$963	$817	17.9%	$2,044	$1,727	18.4%
LMS	179	185	(3.2)	361	357	1.1
LMR	101	86	17.4	222	177	25.4
Other	20	-	NM	36	-	NM
Total NWP	$1,263	$1,088	16.1%	$2,663	$2,261	17.8%
Foreign exchange effect on growth			(0.6)			0.2
NWP growth excluding foreign exchange[1]			16.7%			17.6%

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

Global Specialty's major product lines are as follows:

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

Global Specialty NWP by line of business was as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Syndicate 4472	$424	$340	24.7%	$983	$840	17.0%
LIU third party	264	221	19.5	547	444	23.2
LIU inland marine program	150	133	12.8	288	241	19.5
LIU first party	91	105	(13.3)	155	163	(4.9)
LIU other	34	18	88.9	71	39	82.1
LMS	179	185	(3.2)	361	357	1.1
LMR	101	86	17.4	222	177	25.4
Other	20	-	NM	36	-	NM
Total NWP	$1,263	$1,088	16.1%	$2,663	$2,261	17.8%

NM = Not Meaningful

NWP for the three and six months ended June 30, 2013 was $1.263 billion and $2.663 billion, respectively, increases of $175 million and $402 million over the same periods in 2012. The increases in both periods reflect growth driven by Syndicate 4472, LIU third party, LMR and LIU other due to new business, favorable rate and a reinsurance program change. LIU inland marine business increased due to subscriber growth, pricing mix and a new program that began at the end of the second quarter of 2012. Also contributing to the increase is an internal reinsurance program started in 2013 decreasing ceded premium.

Results of Operations – Global Specialty

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Revenues	$1,244	$1,120	11.1%	$2,461	$2,179	12.9%
PTOI before catastrophes and net incurred losses attributable to prior years	$145	$148	(2.0%)	$305	$338	(9.8%)
Catastrophes [1]	(15)	(1)	NM	(15)	(3)	NM
Net incurred losses attributable to prior years [2]	(19)	15	NM	(49)	(41)	19.5
Pre-tax operating income	$111	$162	(31.5%)	$241	$294	(18.0%)

1 Catastrophes include all current accident year catastrophe losses excluding losses related to Syndicate 4472 and LMR except for the 2013 Oklahoma and Texas tornados and 2012 tornados 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 and reinstatement premium attributable to prior years of $8 million and $26 million for the three and six months ended June 30, 2013 and $8 million and $13 million for the same periods in 2012.

PTOI for the three and six months ended June 30, 2013 was $111 million and $241 million, respectively, decreases of $51 million and $53 million from the same periods in 2012. The decreases in both periods reflect higher current year large losses including Cyclone Oswald and Central European Floods, an inland marine change in fee structure and increased current year losses, lower net investment income, unfavorable incurred losses attributable to prior years in LMS and LIU third party and catastrophe losses from the Texas and Oklahoma tornados.

Revenues for the three and six months ended June 30, 2013 were $1.244 billion and $2.461 billion, respectively, increases of $124 million and $282 million over the same periods in 2012. 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, 2013 was $1.161 billion and $2.281 billion, respectively, increases of $136 million and $296 million over the same periods in 2012. The increases reflect the previously mentioned growth in NWP and premium growth in the second half of 2012.

Net investment income for the three and six months ended June 30, 2013 was $77 million and $153 million, respectively, decreases of $8 million and $15 million from the same periods in 2012. The decreases in both periods reflect lower investment yields partially offset by a higher invested asset base due to the reinvestment of cash flow from operations driven by the growth in NWP.

Claims, benefits and expenses for the three and six months ended June 30, 2013 were $1.128 billion and $2.197 billion, respectively, increases of $177 million and $333 million over the same periods in 2012. The increases in both periods were primarily driven by growth, higher current year losses including Cyclone Oswald and Central European Floods, LIU third party prior year loss activity and catastrophe losses incurred from Texas and Oklahoma tornados in 2013.

	Three Months Ended June 30,			Six Months Ended June 30,		
GLOBAL SPECIALTY	**2013**	**2012**	**Change (Points)**	**2013**	**2012**	**Change (Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	64.1%	64.2%	(0.1)	62.9%	61.4%	1.5
Underwriting expense ratio	29.6	28.8	0.8	29.5	29.0	0.5
Dividend ratio	0.2	0.2	-	0.2	0.2	-
Subtotal	93.9	93.2	0.7	92.6	90.6	2.0
Catastrophes [1]	1.2	0.2	1.0	0.6	0.2	0.4
Net incurred losses attributable to prior years	1.6	(1.5)	3.1	2.2	2.1	0.1
Total combined ratio	96.7%	91.9%	4.8	95.4%	92.9%	2.5

[1] Catastrophes include all current accident year catastrophe losses excluding losses related to Syndicate 4472 and LMR except for the 2013 Oklahoma and Texas tornados and 2012 tornados 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 Global Specialty combined ratio before catastrophes and net incurred losses attributable to prior years for the three and six months ended June 30, 2013 was 93.9% and 92.6%, respectively, increases of 0.7 points and 2.0 points over the same periods in 2012. The year-to-date increase was driven by higher current year large losses in Syndicate 4472 and a change in fee structure and increases in current year losses in inland marine. The increases in the underwriting expense ratio were driven by an increase in the commission ratio due to business mix.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three and six months ended June 30, 2013 was 96.7% and 95.4%, respectively, increases of 4.8 points and 2.5 points over the same periods in 2012. The increases in both periods reflect the changes to the combined ratio discussed above, higher incurred losses attributable to prior years for LIU third party and LMS, and unfavorable catastrophe losses incurred from Texas and Oklahoma tornados in 2013.

CORPORATE AND OTHER

Overview – Corporate and Other

Corporate and Other includes the following significant items:

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

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

- Interest expense on the Company's outstanding debt.

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

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

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

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

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

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

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

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

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

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Reinsurance, net	$8	($101)	NM	$23	($145)	NM
Workers compensation[1]	73	74	(1.4)	52	-	NM
Other	-	2	(100.0)	(1)	1	NM
Total NWP	$81	($25)	NM	$74	($144)	NM

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

NWP for the three and six months ended June 30, 2013 was $81 million and $74 million, respectively, increases of $106 million and $218 million over the same periods in 2012. The increases were primarily due to a decrease in ceded premium related to the homeowners quota share treaty covering Personal Insurance homeowners due to a change in terms effective December 31, 2012 and growth in internal reinsurance. The increase in the year was also driven by a decrease in the Company's workers compensation "booked as billed" adjustment driven by a reduction in workers compensation net written premium.

Results of Operations – Corporate and Other

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Revenues	$395	$155	154.8%	$499	$231	116.0%
Pre-tax operating loss before catastrophes, net incurred losses attributable to prior years, Venezuela devaluation, and LP and LLC income	($243)	($287)	(15.3%)	($431)	($509)	(15.3%)
Catastrophes[1]	42	74	(43.2)	44	104	(57.7)
Net incurred losses attributable to prior years:						
- Asbestos & environmental	(3)	(3)	-	(4)	(5)	(20.0)
- All other[2]	26	2	NM	10	11	(9.1)
Venezuela devaluation	-	-	-	(3)	-	NM
Pre-tax operating loss before LP and LLC income	(178)	(214)	(16.8)	(384)	(399)	(3.8)
LP and LLC income [3]	220	91	141.8	268	212	26.4
Pre-tax operating income (loss)	$42	($123)	(134.1%)	($116)	($187)	(38.0%)

1 Catastrophes include all current accident year catastrophe losses excluding losses related to Syndicate 4472 and LMR except for the 2013 Oklahoma and Texas tornados and 2012 tornados 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 $100 million for the three and six months ended June 30, 2013 and zero for the same periods in 2012. Net of amortization of deferred gains on retroactive reinsurance of $9 million and $19 million for the three and six months ended June 30, 2013 and $10 million and $20 million for the same periods in 2012.
3 LP and LLC income is included in net investment income in the accompanying consolidated statements of income.
NM = Not Meaningful

Pre-tax operating income (loss) for the three and six months ended June 30, 2013 was $42 million and ($116) million versus ($123) million and ($187) million in the same periods in 2012. The increases were driven by higher valuation increases in LP and LLC investments, a reduction in unallocated loss adjustment expense reserves, favorable annuity reserve development, and higher oil and gas revenues due to increased production, partially offset by a decrease in ceded losses related to the homeowners quota share treaty and higher corporate expenses primarily due to employee pension benefits. The year was also driven by unfavorable loss development on certain pre-2012 workers compensation business assumed from Commercial Insurance including an estimate for the New York Fund for Reopened Cases for workers compensation, partially offset by a workers compensation residual market litigation settlement.

Revenues for the three and six months ended June 30, 2013 were $395 million and $499 million, respectively, increases of $240 million and $268 million over the same periods in 2012. The major components of revenues are net premium earned, net investment income, net realized gains, and fee and other revenues.

Net premium earned for the three and six months ended June 30, 2013 was $109 million and $86 million, respectively, increases of $211 million and $296 million over the same periods in 2012. The increases reflect a reduction in ceded premium due to a change in terms on the homeowners quota share treaty covering Personal Insurance homeowners effective December 31, 2012 and favorable earned but not reported development on certain pre-2012 workers compensation business assumed from Commercial Insurance.

Net investment income for the three and six months ended June 30, 2013 was $130 million and $149 million, respectively, increases of $83 million and $20 million over the same periods in 2012. Both periods primarily reflect higher valuation increases in LP and LLC investments, primarily in the energy sector, and a higher invested asset base as a result of continued reinvestment of cash flows from operations. The increases are partially offset by a reduction in taxable interest income due to lower investment yields and valuation decreases in other equity method investments.

Net realized gains for the three and six months ended June 30, 2013 were $50 million and $64 million, respectively, decreases of $97 million and $118 million from the same periods in 2012. The decreases in both periods reflect gains in 2012 that did not recur in 2013, primarily in the energy sector.

Fee and other revenues for the three and six months ended June 30, 2013 were $106 million and $200 million, increases of $43 million and $70 million over the same periods in 2012. The increases primarily reflect higher oil and gas revenues due to increased production.

Claims, benefits and expenses for the three and six months ended June 30, 2013 were $303 million and $551 million, respectively, increases of $172 million and $315 million over the same periods in 2012. The increases in both periods are driven by unfavorable loss development on certain pre-2012 workers compensation business assumed from Commercial Insurance, a lower ceding percentage on the homeowners quota share treaty due to a change in terms, higher employee pension expenses and higher operating expenses related to Liberty Energy growth, partially offset by a reduction in unallocated loss adjustment expense reserves and favorable annuity reserve development. The increase in the year was also driven by an estimate for the New York Fund for Reopened Cases for workers compensation and higher losses related to the internal reinsurance program, partially offset by a workers compensation residual market litigation settlement.

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, 2013 and December 31, 2012:

$ in Millions	As of June 30, 2013		As of December 31, 2012	
Invested Assets by Type	Carrying Value	% of Total	Carrying Value	% of Total
Fixed maturities, available for sale, at fair value	$63,250	81.4%	$64,094	82.1%
Equity securities, available for sale, at fair value	2,728	3.5	2,495	3.2
LPs and LLCs	3,970	5.1	3,767	4.8
Commercial mortgage loans	1,479	1.9	1,335	1.7
Short-term investments	290	0.4	208	0.3
Other investments	731	0.9	677	0.9
Cash and cash equivalents	5,273	6.8	5,484	7.0
Total invested assets	$77,721	100.0%	$78,060	100.0%

Total invested assets as of June 30, 2013 were $77.721 billion, a decrease of $339 million or 0.4% from December 31, 2012. The decrease reflects a drop in fixed maturity unrealized gains related to an increase in treasury yields, partially offset by the strong equity market performance and the reinvestment of cash flows from operations.

Fixed maturities as of June 30, 2013 were $63.250 billion, a decrease of $844 million or 1.3% from December 31, 2012. The decrease reflects a drop in fixed maturity unrealized gains related to an increase in treasury yields partially offset by the reinvestment of cash flows from operations. As of June 30, 2013, included in fixed maturities are commitments to purchase various residential mortgage-backed securities at a cost of $178 million and fair value of $176 million, and various corporate and municipal securities at a cost and fair value of $40 million.

Equity securities available for sale as of June 30, 2013 were $2.728 billion ($2.348 billion common stock and $380 million preferred stock) versus $2.495 billion as of December 31, 2012 ($2.097 billion common

stock and $398 million preferred stock), an increase of $233 million or 9.3% over December 31, 2012. Of the $2.348 billion of common stock at June 30, 2013, $334 million relates to securities associated with non-guaranteed unit linked products where the policyholder bears the investment risk. The increase in total equity securities available for sale was primarily due to a combination of the strong equity market performance and the reinvestment of cash flow from operations.

Investments in LPs and LLCs as of June 30, 2013 were $3.970 billion, an increase of $203 million or 5.4% over December 31, 2012. These investments consist of traditional private equity partnerships of $2.064 billion, natural resources partnerships of $615 million, real estate partnerships of $646 million and other partnerships of $645 million. The increase reflects net improved valuations and new investments, offset by distributions received. The Company's investments in LPs and LLCs are long-term in nature 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, 2013, the Company had unfunded commitments in traditional private equity partnerships, real estate, natural resources, and other of $1.045 billion, $443 million, $3.031 billion, and $421 million, respectively.

Commercial mortgage loans as of June 30, 2013 were $1.479 billion (net of $19 million of loan loss reserves or 1.3% of the outstanding loan portfolio), an increase of $144 million or 10.8% over December 31, 2012. The increase primarily reflects a $189 million increase in loans, partially offset by $48 million in principal repayments and a decrease of $3 million to the loan loss reserve. The entire commercial loan portfolio is U.S. based. As of June 30, 2013, the average total loan size was $1 million and the average loan participation size was less than $1 million. The number of loans in the portfolio increased from 3,679 at December 31, 2012 to 3,971 at June 30, 2013. Approximately 92% of the loans are full or partial recourse to borrowers.

Cash and cash equivalents as of June 30, 2013 were $5.273 billion, a decrease of $211 million or 3.8% from December 31, 2012. The decrease was primarily related to a pension contribution and the Venezuela devaluation, partially offset by an increase in securities lending cash collateral and cash received from financing activities.

Regarding fair value measurements, as of June 30, 2013, excluding separate accounts and other assets, the Company reflected $4.651 billion (7.0%) 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, 2013 the Company reported $59.841 billion (89.9%) as level 2, consisting primarily of various fixed maturity securities. Finally, the Company reported $2.063 billion (3.1%) 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, 2013, no single issuer, excluding U.S. Treasuries, agency securities and mortgage-backed securities, accounted for more than 1.6% of invested assets.

The following tables summarize the Company's available for sale portfolio by security type as of June 30, 2013 and December 31, 2012:

$ in Millions June 30, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agency securities	$2,963	$204	($21)	$3,146
Residential MBS [1]	8,252	343	(61)	8,534
Commercial MBS	1,810	35	(38)	1,807
Other MBS and ABS [2]	2,268	85	(29)	2,324
U.S. state and municipal	13,696	871	(189)	14,378
Corporate and other	25,892	1,410	(313)	26,989
Foreign government securities	5,970	191	(89)	6,072
Total fixed maturities	60,851	3,139	(740)	63,250
Common stock	1,905	501	(58)	2,348
Preferred stock	400	25	(45)	380
Total equity securities	2,305	526	(103)	2,728
Total securities available for sale	$63,156	$3,665	($843)	$65,978

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

$ in Millions December 31, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agency securities	$3,248	$281	($1)	$3,528
Residential MBS	8,259	530	(4)	8,785
Commercial MBS	1,649	78	(1)	1,726
Other MBS and ABS	2,332	155	(1)	2,486
U.S. state and municipal	13,235	1,350	(19)	14,566
Corporate and other	24,803	2,185	(53)	26,935
Foreign government securities	5,840	276	(48)	6,068
Total fixed maturities	59,366	4,855	(127)	64,094
Common stock	1,791	369	(63)	2,097
Preferred stock	422	25	(49)	398
Total equity securities	2,213	394	(112)	2,495
Total securities available for sale	$61,579	$5,249	($239)	$66,589

The following table summarizes the Company's mortgage and asset-backed fixed maturity portfolio by credit quality as of June 30, 2013:

$ in Millions	**As of June 30, 2013**							
Mortgage & Asset-Backed Fixed Maturities by Credit Quality[1]	**AAA**	**AA**	**A**	**BBB**	**BB**	**B or Lower**	**Total**	**% of Total**
SBA loans	$1,921	$-	$-	$-	$-	$-	$1,921	15.1%
GNMA residential mortgage	3,812	5	-	-	-	-	3,817	30.1
FNMA residential mortgage	2,379	-	-	-	-	-	2,379	18.8
FHLMC residential mortgage	1,897	-	-	-	-	-	1,897	15.0
Prime residential mortgage	8	3	4	17	4	188	224	1.8
Alt-A residential mortgage	-	15	-	8	6	128	157	1.2
Sub-prime residential mortgage	29	-	3	1	6	21	60	0.5
Commercial MBS	1,692	54	6	55	-	-	1,807	14.3
Non-mortgage ABS	219	7	55	107	5	10	403	3.2
Total	$11,957	$84	$68	$188	$21	$347	$12,665	100.0%
% of Total	94.4%	0.7%	0.5%	1.5%	0.2%	2.7%	100.0%	

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

Approximately 79% of the Company's securitized portfolio is explicitly backed by the U.S. government (SBA and GNMA) or by government-sponsored entities (FNMA and FHLMC). Over 94% 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 97% rated AA or above.

The following table summarizes the Company's allocation of fixed maturities by credit quality as of June 30, 2013 and December 31, 2012:

$ in Millions	**As of June 30, 2013**		**As of December 31, 2012**	
Fixed Maturities by Credit Quality[1]	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
AAA	$21,423	33.9%	$22,015	34.3%
AA+, AA, AA-	10,944	17.3	10,993	17.2
A+, A, A-	13,894	22.0	13,913	21.7
BBB+, BBB, BBB-	11,767	18.6	11,865	18.5
BB+, BB, BB-	1,476	2.3	1,523	2.4
B+, B, B-	2,849	4.5	2,889	4.5
CCC or lower	897	1.4	896	1.4
Total fixed maturities	$63,250	100.0%	$64,094	100.0%

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

The Company's allocation to investment grade (fixed maturities with an average credit rating of BBB- or higher) securities remained at 92% at June 30, 2013, consistent with December 31, 2012. Overall, the average credit quality rating stands at A+ as of June 30, 2013. 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 operations.

The following table summarizes available-for-sale fixed maturity securities by contractual maturity at June 30, 2013 and December 31, 2012. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid with or without call or prepayment penalties. Due to the potential for prepayment on MBS and ABS, they are not categorized by contractual maturity.

$ in Millions	As of June 30, 2013		As of December 31, 2012	
Fixed Maturities by Maturity Date	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
One year or less	$3,731	5.9%	$3,337	5.2%
Over one year through five years	18,623	29.4	19,275	30.1
Over five years through ten years	16,329	25.8	15,808	24.7
Over ten years	11,902	18.9	12,677	19.7
MBS and ABS	12,665	20.0	12,997	20.3
Total fixed maturities	$63,250	100.0%	$64,094	100.0%

During 2013, after taking into consideration changes in investment opportunities and its view of the current and prospective business and economic environment, the Company has made only minor adjustments to the average duration of its investment portfolio.

Net Investment Income

The following table summarizes the Company's net investment income for the three and six months ended June 30, 2013 and 2012:

$ in Millions	Three Months Ended June 30,		Six Months Ended June 30,	
Net Investment Income	**2013**	**2012**	**2013**	**2012**
Taxable interest income	$570	$ 628	$1,146	$1,263
Tax-exempt interest income	113	112	227	228
Dividends	20	17	35	28
LP and LLC income	220	91	268	212
Commercial mortgage loans	23	20	44	39
Other investment loss	(54)	(2)	(52)	(6)
Gross investment income	892	866	1,668	1,764
Investment expenses	(37)	(34)	(77)	(70)
Net investment income	$855	$ 832	$1,591	$1,694

Net investment income for the three and six months ended June 30, 2013 was $855 million and $1.591 billion, an increase of $23 million and a decrease of $103 million, respectively, versus the same periods in 2012. Both periods primarily reflect higher valuation increases in LP and LLC investments, primarily in the energy sector, and a higher invested asset base as a result of continued reinvestment of cash flow from operations. The increases are partially offset in the quarter and more than offset in the year by a reduction in taxable interest income due to lower investment yields and valuation decreases in other equity method investments.

Net Realized Gains (Losses)

The following tables summarize the Company's net realized gains (losses) for the three and six months ended June 30, 2013 and 2012:

$ in Millions **Net Realized Gains (Losses)**	**Sales & Dispositions**	**Impairments**	**Change in Derivatives Value**	**Total**
Three Months Ended June 30, 2013:				
Fixed maturities	$31	$-	$-	$31
Common and preferred stock	26	(2)	-	24
Other	6	-	2	8
Total	$63	($2)	$2	$63
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

$ in Millions **Net Realized Gains (Losses)**	**Sales & Dispositions**	**Impairments**	**Change in Derivatives Value**	**Total**
Six Months Ended June 30, 2013:				
Fixed maturities	$44	($231)	$-	($187)
Common and preferred stock	61	(4)	-	57
Other	4	(1)	(7)	(4)
Total	$109	($236)	($7)	($134)
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

$ in Millions	Three Months Ended June 30,		Six Months Ended June 30,	
Components of Net Realized Gains (Losses)	**2013**	**2012**	**2013**	**2012**
Fixed maturities:				
Gross realized gains	$39	$70	$91	$ 135
Gross realized losses	(8)	(42)	(278)	(68)
Equities:				
Gross realized gains	30	24	72	51
Gross realized losses	(6)	(17)	(15)	(32)
Other:				
Gross realized gains	11	152	24	153
Gross realized losses	(3)	(15)	(28)	(18)
Total net realized gains (losses)	$63	$172	($134)	$ 221

Net realized gains (losses) for the three and six months ended June 30, 2013 were $63 million and ($134) million, versus $172 million and $221 million in the same periods in 2012. The decreases in net gains in both periods relate to gains in 2012 that did not recur in 2013 primarily in the energy sector, as well as from the sale of a business segment in Argentina and from contingent consideration recognized in connection with the prior sale of certain Commercial Insurance policy renewal rights in 2009. The loss for the six months ended June 30, 2013 primarily relates to impairment losses of $223 million recognized as a result of the Venezuela devaluation in February 2013 being deemed other-than-temporary.

The following table summarizes the Company's unrealized losses and fair value by security type and by duration as of June 30, 2013 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	($21)	$1,035	$-	$-
Residential MBS	(59)	2,454	(2)	28
Commercial MBS	(38)	757	-	4
Other MBS and ABS	(29)	979	-	12
U.S. state and municipal	(174)	2,451	(15)	97
Corporate and other	(288)	6,595	(25)	223
Foreign government securities	(52)	1,607	(37)	328
Total fixed maturities	(661)	15,878	(79)	692
Common stock	(29)	296	(29)	138
Preferred stock	-	10	(45)	263
Total equity securities	(29)	306	(74)	401
Total securities available for sale	($690)	$16,184	($153)	$1,093

Unrealized losses increased from $239 million as of December 31, 2012 to $843 million as of June 30, 2013 primarily related to an increase in treasury yields. Unrealized losses less than 12 months increased from $70 million at December 31, 2012 to $690 million as of June 30, 2013. Unrealized losses 12 months or longer decreased from $169 million as of December 31, 2012 to $153 million as of June 30, 2013. Of the $29 million unrealized losses 12 months or longer on common stock, $8 million relates to securities associated with non-guaranteed unit linked products where the policyholder bears the investment risk. As of June 30, 2013, there were 732 securities that were in an unrealized loss position for 12 months or longer. The Company monitors the difference between the amortized cost and estimated fair value of debt securities to ascertain whether declines in value are temporary in nature. The Company currently does not have the intent to sell these securities and has determined it is not more likely than not that it would be required to sell these fixed maturity securities before they recover their fair value.

If the Company believes a decline in the value of a particular investment is temporary, the decline is recorded as an unrealized loss in policyholders' equity. If the decline is believed to be other-than-temporary, and the Company believes that it will not be able to collect all cash flows due on its fixed maturity securities, then the carrying value of the investment is written down to the expected cash flow amount and a realized loss is recorded as a credit impairment. A non-credit impairment loss is recognized in other comprehensive income, net of applicable taxes, as the difference between expected cash flows and fair value. For the three and six months ended June 30, 2013, the Company recorded less than $1 million and $231 million, respectively, of fixed maturity impairment losses. Fixed maturity impairment losses for the six months ended are primarily driven by the Company's decision to treat the Venezuela devaluation as an other-than-temporary impairment. The Company has concluded that the remaining gross unrealized losses of fixed maturity securities as of June 30, 2013 are temporary.

For equity securities, if the decline is believed to be other-than-temporary, the carrying value of the investment is written down to fair value and a realized loss is recorded. The gross unrealized losses recorded on equity securities at June 30, 2013 resulted primarily from decreases in quoted fair values from the dates that certain investment securities were acquired as opposed to fundamental changes in the issuer's financial performance and near-term financial prospects. For the three and six months ended June 30, 2013, the Company recorded $2 million and $4 million in impairment losses on equity securities. The Company has concluded that the gross unrealized losses of equity securities as of June 30, 2013 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, 2013 (including cash and cash equivalents) totaled $77.721 billion.

Debt outstanding as of June 30, 2013 and December 31, 2012 was as follows:

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

$ in Millions	**As of June 30, 2013**	**As of December 31, 2012**
Current maturities of long-term debt[1]	$604	$286
Total short-term debt and current maturities of long-term debt	$604	$286

[1] 2013 includes $260 million of 8.00% Notes due October 31, 2013, $239 million of 5.75% Notes due March 15, 2014 and $104 million of 7.30% Notes due June 15, 2014. 2012 includes $25 million of 7.86% Medium Term Notes due May 31, 2013 and $260 million of 8.00% Notes due October 31, 2013.

Long-term debt:

$ in Millions	As of June 30, 2013	As of December 31, 2012
5.75% Notes, due 2014	$ -	$239
7.30% Notes, due 2014	-	104
5.588% Mortgage loan, due 2015	47	47
6.70% Notes, due 2016	249	249
7.00% Junior Subordinated notes, due 2067[1]	300	300
5.00% Notes, due 2021	600	600
4.95% Notes, due 2022	750	750
4.25% Notes, due 2023	600	-
8.50% Surplus notes, due 2025	140	140
7.875% Surplus notes, due 2026	227	227
7.625% Notes, due 2028	3	3
3.91% - 4.25% Federal Home Loan Bank Borrowings, due 2032	300	300
7.00% Notes, due 2034	231	231
6.50% Notes, due 2035	471	471
7.50% Notes, due 2036	19	19
7.80% Junior Subordinated notes, due 2087[2]	700	700
10.75% Junior Subordinated notes, due 2088[3]	516	620
6.50% Notes, due 2042	750	750
7.697% Surplus notes, due 2097	260	260
Subtotal	6,163	6,010
Unamortized discount	(21)	(20)
Total long-term	$6,142	$5,990

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

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

Debt Transactions and In-force Credit Facilities

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

During the three and six months ended June 30, 2013, the Company repurchased $66 million and $104 million, respectively, of the 10.75% Junior Subordinated notes due 2088. Pre-tax losses of $39 million and $60 million, respectively, were recorded on these transactions and are included in loss on extinguishment of debt in the accompanying consolidated statements of income.

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

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

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

LMIC, Peerless Insurance Company ("PIC"), Liberty Life Assurance Company of Boston ("LLAC"), Liberty Mutual Fire Insurance Company ("LMFIC") and Employers Insurance Company of Wausau ("EICOW") are members of the Federal Home Loan Bank. On March 21, 2012, LMFIC borrowed $150 million at a rate of 3.91% with a maturity date of March 22, 2032. On March 23, 2012 and April 2, 2012, LMIC borrowed $127 million at a rate of 4.24% with a maturity date of March 23, 2032 and $23 million at a rate of 4.25% with a maturity date of April 2, 2032, respectively. As of June 30, 2013, all of the outstanding Federal Home Loan Bank borrowings are fully collateralized.

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

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, 2013, there was no commercial paper outstanding.

Interest Expense

Consolidated interest expense for the three and six months ended June 30, 2013 was $102 million and $205 million, decreases of $4 million and $5 million from the same period in 2012. The decrease reflects the completion of the tender offers, the repurchases of the 10.75% Junior Subordinated notes due 2088, the retirement of the 7.25% Notes due 2012 and increased capitalized interest associated with the construction of the Company's new building, partially offset by the new debt issuances in August 2012 and June 2013. 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, 2013, the Company, through its downstream subsidiary LMGI, had $5.883 billion of debt outstanding, excluding discount. This amount includes a short-term loan of $115 million from LMIC with a maturity date of September 28, 2013.

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

The authorized control level risk-based capital (as of December 31, 2012) and 2013 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	**2012**	**2011**	**2013**	**2013**
LMIC	457%	469%	$1,451	$167
LMFIC	343%	458%	-	$4
EICOW	567%	623%	-	-

[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, 2013. Available dividend capacity as of June 30, 2013 is calculated as 2013 dividend capacity less dividends paid for the preceding 12 months. Dividends paid July 1, 2012 through June 30, 2013 for LMIC, LMFIC and EICOW were $200 million, $11 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, 2013, LCS recorded $101 million and $209 million, respectively, in pre-tax income.

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

Statutory Surplus

Statutory surplus as regards policyholders for the combined operations of LMIC and its U.S affiliates, including international branches, was $16.524 billion and $16.521 billion at June 30, 2013 and December 31, 2012, respectively. The increase in surplus primarily reflects net income of $61 million (the sum of earnings from the Company's 58 domestic property-casualty insurance companies and dividends from subsidiaries), affiliated unrealized gains of $67 million, and unaffiliated unrealized gains of $62 million, partially offset by other changes in surplus of ($187) million. Other changes in surplus is primarily driven by goodwill amortization expense, dividends to stockholders, and foreign currency translation, partially offset by a decrease in non-admitted goodwill.

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.

Adoption of New Accounting Standards

The Company has not adopted any accounting standards with a material impact through the second quarter of 2013**.**

Future Adoption of New Accounting Standards

In June 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-08 Financial Services—Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements ("ASU 2013-08"). This guidance, as codified in Accounting Standards Codification ("ASC") 946, Financial Services – Investment Companies, sets forth a new approach for determining whether a public or private company is an investment company, and also clarifies the characteristics and sets measurement and disclosure requirements for an investment company. ASU 2013-08 is effective for fiscal years beginning after December 15, 2013, and there will be no material impact on the Company.

Unpaid Claims and Claim Adjustment Expenses

Reserves for property-casualty unpaid claims and claim adjustment expenses were $51.709 billion and $51.885 billion as of June 30, 2013 and December 31, 2012, respectively.

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

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

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

Asbestos and Environmental

The Company's asbestos and environmental reserves for unpaid claims and claim adjustment expenses, net of reinsurance decreased $68 million from $1.215 billion as of December 31, 2012 to $1.147 billion as of June 30, 2013.

In the third quarter of 2011, the Company completed asbestos ground-up and aggregate environmental reserve studies. These studies were completed by a multi-disciplinary team of internal claims, legal, reinsurance and actuarial personnel, and included all major business segments of the Company's direct, assumed, and ceded asbestos and environmental unpaid claim liabilities. As part of the internal review, policyholders with the largest direct asbestos unpaid claim liabilities were individually evaluated using the Company's proprietary stochastic ground-up model, which is consistent with published actuarial methods of asbestos reserving. Among the factors reviewed in depth by the team of specialists were the type of business, level of exposure, coverage limits, geographic distribution of products, injury type, jurisdiction and legal defenses. Reinsurance recoveries for these policyholders were then separately evaluated by the Company's reinsurance and actuarial personnel. Asbestos and environmental unpaid claim liabilities for all other policyholders were evaluated using aggregate methods that utilized information and experience specific to these policyholders. The studies resulted in an increase to reserves of $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 a liability that differs from current reserves by an amount that could be material to the Company's future operating results and financial condition.

Reinsurance Recoverables

The Company reported reinsurance recoverables of $12.887 billion and $13.232 billion at June 30, 2013 and December 31, 2012, respectively, net of allowance for doubtful accounts of $231 million and $275 million, respectively. Included in these balances are $762 million and $905 million of paid recoverables and $12.356 billion and $12.602 billion of unpaid recoverables, respectively.

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.

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured business. The Company evaluates and monitors the financial condition of its reinsurers under voluntary reinsurance arrangements to minimize its exposure to significant losses from reinsurer insolvencies. The Company reports its reinsurance recoverables net of an allowance for estimated

uncollectible reinsurance recoverables. The allowance is based upon the Company's ongoing review of amounts outstanding, length of collection periods, changes in reinsurer credit standing and other relevant factors. Accordingly, the establishment of reinsurance recoverables and the related allowance for uncollectible reinsurance recoverables is also an inherently uncertain process involving estimates. Changes in these estimates could result in additional charges to the consolidated statements of income.

The Company 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, 2013, and December 31, 2012, deferred gains related to these reinsurance arrangements were $270 million and $296 million, respectively, and are included in other liabilities within the accompanying consolidated balance sheets. Interest credited to the funds held balances for the three and six months ended June 30, 2013 was $21 million and $42 million, respectively, as compared to $21 million and $41 million for the three and six months ended June 30, 2012, respectively. Deferred gain amortization was $10 million and $19 million for the three and six months ended June 30, 2013, respectively, as compared to $10 million and $20 million for the three and six months ended June 30, 2012, respectively. Reinsurance recoverables related to these transactions, including experience related profit accruals, were $1.128 billion and $1.165 billion as of June 30, 2013, and December 31, 2012, respectively.

Additionally, the Company has an aggregate stop loss program covering substantially all of Commercial Insurance's voluntary workers compensation business from the fourth quarter 2000 through the fourth quarter 2002 accident year periods. 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.

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 maturity securities, then the carrying value of the investment is written down to the expected cash flow amount and a realized loss is recorded as a credit impairment. A non-credit impairment loss is recognized in other comprehensive income, net of applicable taxes as the difference between expected cash flow and fair value.

The Company reviews fixed maturity, public equity securities and private equity and private equity co-investment securities for impairment on a quarterly basis. Securities are reviewed for both quantitative and qualitative considerations including, but not limited to: (a) the extent of the decline in fair value below book value, (b) the duration of the decline, (c) significant adverse changes in the financial condition or near term prospects of the investment or issuer, (d) significant change in the business climate or credit ratings of the issuer, (e) general market conditions and volatility, (f) industry factors, and (g) the past impairment of the security holding or the issuer. For fixed maturity securities that the Company does not intend to sell or for which it is more likely than not that the Company would not be required to sell before an anticipated

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

Subsequent to June 30, 2013, 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, 2013 the Company has determined that it is the primary beneficiary of one VIE in the low-income housing tax credit sector, and as such, this VIE has been consolidated in the Company's financial statements. The carrying value of assets and liabilities, and the Company's maximum exposure to loss of the consolidated VIE as of June 30, 2013 and December 31, 2012 were immaterial to the Company.

The Company has variable interests in VIEs for which it is not the primary beneficiary and accounts for these VIEs under the equity method in accordance with ASC 323, *Investments-Equity Method and Joint Ventures*. These VIEs are principally private equity limited partnerships in which the Company has invested as a passive limited partner. The partnerships were deemed to be VIEs because the equity holders as a group lack the power to direct the activities that most significantly impact the respective entity's economic performance. The VIEs generate variability primarily from investment portfolio performance and that variability is passed to equity holders. For these VIEs, the Company absorbs a portion, but not a majority, of this variability. The net carrying value of non- consolidated VIEs in which the Company has a significant variable interest was $262 million and $282 million as of June 30, 2013 and December 31, 2012, respectively, and the Company's maximum exposure to loss was $345 million and $340 million as of June 30, 2013 and December 31, 2012, respectively. The assets are included in Other Investments on the accompanying consolidated balance sheets. Maximum exposure to loss includes the carrying value and unfunded commitment of the VIEs. There is no recourse provision to the general credit of the Company for any VIEs beyond the full amount of the Company's loss exposure.

Deferred Acquisition Costs

Total deferred acquisition costs were $2.910 billion and $2.732 billion as of June 30, 2013 and December 31, 2012, respectively. Deferred acquisition costs are costs that are directly related to the acquisition or renewal of insurance contracts. All other acquisition related costs, including market research, training, administration, unsuccessful acquisition or renewal efforts, and product development, are charged to expense as incurred. Deferred acquisition costs are reviewed annually for recoverability. Investment

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

Goodwill

Goodwill assets were $4.822 billion and $4.850 billion as of June 30, 2013 and December 31, 2012, respectively. Goodwill is tested for impairment at least annually using either a qualitative or a quantitative process. Election of the approach can be made at the reporting unit level. The reporting unit has the option to skip the qualitative test and move directly to completion of the quantitative process. The Company's SBUs are deemed reporting units. The qualitative approach can be used to evaluate if there are any indicators of impairment. Through this process, the reporting unit must determine if there is indication that it is more likely than not that the fair value of the reporting unit is less than its carrying amount, including goodwill. If it is determined that there is an indication of potential impairment, the reporting unit must complete the quantitative process. The quantitative approach is a two-step process. The first step is performed to identify potential impairment and, if necessary, the second step is performed for the purpose of measuring the amount of impairment, if any. Impairment is recognized only if the carrying amount is not recoverable from the discounted cash flows using a "market" rate and is measured as the difference between the carrying amount and the implied fair value. Other changes in the carrying amount of goodwill are primarily caused by foreign currency translation adjustments and acquisitions.

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

Deferred Income Taxes

The net deferred tax asset was $1.550 billion and $1.102 billion as of June 30, 2013 and December 31, 2012, net of a valuation allowance of $185 million and $185 million, respectively. The net increase in the Company's net deferred income tax asset is primarily due to changes in net unrealized capital gains and losses on investments. Management believes it is more likely than not that the Company's net deferred income tax asset will be realized based upon the Company's ability and the likelihood of generating future taxable income.

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

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

Balance at December 31, 2012	$356
Additions based on tax positions related to current year	1
Reductions based on tax positions related to current year	(1)
Additions for tax positions of prior years	43
Reductions for tax positions of prior years	(80)
Balance at June 30, 2013	$319

Included in the tabular roll forward of unrecognized tax benefits is interest and penalties in the amount of $107 million and $102 million as of June 30, 2013 and December 31, 2012, respectively.

Included in the balance at June 30, 2013, is $195 million related to tax positions that would impact the effective tax rate.

The Company recognizes interest and penalties related to unrecognized tax benefits in Federal, state, and foreign income tax expense. For the three months ended June 30, 2013 and 2012, the Company recognized $1 million of interest and penalties in each period. For the six months ended June 30, 2013 and 2012, the Company recognized $5 million and $11 million of interest and penalties, respectively. The Company had $111 million and $106 million of interest and penalties accrued as of June 30, 2013 and December 31, 2012, 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 United States Federal income tax returns through the 2001 tax year and is currently reviewing income tax returns for the 2002 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 2012 direct written premium. The Company also ranks 81st on the Fortune 100 list of largest corporations in the U.S. based on 2012 revenue. As of December 31, 2012, LMHC had $120.060 billion in consolidated assets, $101.535 billion in consolidated liabilities, and $36.944 billion in annual consolidated revenue.

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

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

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