Liberty Mutual Holding Company Inc.

Third Quarter 2008

Consolidated Financial Statements

Liberty Mutual Holding Company Inc.

Consolidated Statements of Income

(dollars in millions)

(Unaudited)

	Three Months Ended September 30,				Nine Months Ended September 30,			
		2008		**2007**		**2008**		**2007**
Revenues								
Premiums earned	$	6,218	$	5,596	$	18,160	$	16,163
Net investment income		705		759		2,216		2,142
Net realized investment (losses) gains		(249)		19		(256)		144
Fee and other revenues		197		215		584		578
Total revenues		6,871		6,589		20,704		19,027
Claims, Benefits and Expenses								
Benefits, claims and claim adjustment expenses		4,897		4,121		13,851		11,953
Insurance operating costs and expenses		994		930		2,861		2,713
Amortization of deferred policy acquisition costs		902		860		2,757		2,443
Interest expense		114		86		290		231
Interest credited to policyholders		54		51		143		148
Total claims, benefits and expenses		6,961		6,048		19,902		17,488
(Loss) income before income tax (benefit) expense		(90)		541		802		1,539
Income tax (benefit) expense		(96)		137		136		446
Net income	$	6	$	404	$	666	$	1,093

See accompanying notes to the unaudited consolidated financial statements.

Liberty Mutual Holding Company Inc.

Consolidated Balance Sheets

(dollars in millions)

(Unaudited)

	September 30, 2008	December 31, 2007
Assets:		
Investments		
Fixed maturities, available for sale, at fair value (amortized cost of $50,190 and $46,848)	$ 47,754	$ 46,934
Equity securities, available for sale, at fair value (cost of $2,571 and $2,418)	2,772	3,285
Trading securities, at fair value (cost of $15 and $16)	15	16
Short-term investments	1,312	764
Mortgage loans	1,028	657
Other investments	2,751	2,348
Total investments	55,632	54,004
Cash and cash equivalents	4,940	3,199
Premium and other receivables (net of allowance of $116 and $99)	8,028	6,491
Reinsurance recoverables (net of allowance of $360 and $331)	15,664	15,518
Deferred income taxes (net of valuation allowance of $142 and $117)	2,710	1,469
Deferred acquisition costs and acquired in-force policy intangibles	2,719	2,045
Goodwill	4,548	1,962
Prepaid reinsurance premiums	1,199	1,180
Separate account assets	3,453	3,431
Other assets	6,624	5,443
Total assets	$ 105,517	$ 94,742
Liabilities:		
Unpaid claims and claim adjustment expenses and future policy benefits:		
Property and casualty	$ 49,618	$ 42,992
Life	6,170	6,063
Other policyholder funds and benefits payable	2,994	2,818
Unearned premiums	13,687	10,625
Funds held under reinsurance treaties	1,881	1,941
Short-term debt	18	91
Long-term debt	6,088	4,360
Separate account liabilities	3,453	3,431
Other liabilities	10,800	10,055
Total liabilities	94,709	82,376
Policyholders' equity:		
Unassigned equity	12,246	11,621
Accumulated other comprehensive (loss) income	(1,438)	745
Total policyholders' equity	10,808	12,366
Total liabilities and policyholders' equity	$ 105,517	$ 94,742

See accompanying notes to the unaudited consolidated financial statements.

Liberty Mutual Holding Company Inc.

Consolidated Statements of Changes in Policyholders' Equity

(dollars in millions)

(Unaudited)

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Balance at beginning of the period	$ 12,366	$ 10,895
Net income	666	1,093
Other comprehensive (loss) income, net of taxes:		
Unrealized (losses) on securities	(2,013)	(217)
Foreign currency translation and other adjustments	(170)	273
Total other comprehensive (loss) income, net of taxes	(2,183)	56
Total comprehensive (loss) income	(1,517)	1,149
Cumulative effect of accounting change (Note 1)	(41)	11
Balance at end of the period	$ 10,808	$ 12,055

See accompanying notes to the unaudited consolidated financial statements.

Liberty Mutual Holding Company Inc.

Consolidated Statements of Cash Flows

(dollars in millions)

(unaudited)

	Nine Months Ended September 30, 2008	2007
Cash flows from operating activities:		
Net income	$ 666	$ 1,093
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized investment losses (gains)	256	(144)
Undistributed private equity investment gains	(120)	(263)
Premium, other receivables, and reinsurance recoverables	(709)	178
Deferred policy acquisition costs	(196)	(281)
Liabilities for insurance reserves	2,984	2,247
Taxes payable, net of deferred	(265)	(16)
Other, net	(44)	113
Total adjustments	1,906	1,834
Net cash provided by operating activities	2,572	2,927
Cash flows from investing activities:		
Purchases of investments	(10,186)	(15,729)
Sales and maturities of investments	13,557	15,156
Property and equipment purchased, net	(71)	(198)
Payment for purchase of companies, net of cash acquired	(5,402)	(2,695)
Other investing activities	(274)	(263)
Net cash used in investing activities	(2,376)	(3,729)
Cash flows from financing activities:		
Net activity in policyholder accounts	77	19
Debt financing, net	1,139	1,713
Net security lending activity and other financing actitivites	329	(550)
Net cash provided by financing activities	1,545	1,182
Net increase in cash and cash equivalents	1,741	380
Cash and cash equivalents, beginning of period	3,199	3,512
Cash and cash equivalents, end of period	$ 4,940	$ 3,892

See accompanying notes to the unaudited consolidated financial statements.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Liberty Mutual Holding Company Inc. and its subsidiaries (collectively "LMHC" or the "Company"). Certain reclassifications have been made to the 2007 consolidated financial statements to conform to the 2008 presentation. All material intercompany transactions and balances have been eliminated.

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The Company's principal estimates include (1) unpaid losses and loss expense reserves, including asbestos and environmental reserves and associated reinsurance recoverables and loss sensitive premiums receivable; (2) allowance for uncollectible reinsurance and policyholder receivables; (3) fair value determination and other than temporary impairments of the investment portfolio; (4) deferred acquisition costs; (5) the valuation of goodwill and intangible assets; and (6) valuation allowance on deferred taxes. While management believes that the amounts included in the consolidated financial statements reflect their best estimates and assumptions, these amounts ultimately could be materially different from the amounts currently provided for in the consolidated financial statements.

Adoption of New Accounting Standards

On October 10, 2008, the FASB issued FSP FAS 157-3*," Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active"* that provided FAS 157 implementation guidance for fair value considerations of thinly traded securities. Management is currently evaluating the impact of FSP FAS 157-3 to the Company. The adoption of FSP FAS 157-3 had no impact on the Company's financial statements.

Effective January 1, 2008, the Company had the option to adopt Statement of Financial Accounting Standards No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of SFAS 115*" ("SFAS 159"). The Company has not made any fair value elections under SFAS 159. See note 5, for adoption of SFAS 157.

Effective January 1, 2008, the Company adopted Emerging Issues Task Force ("EITF") issue No. 06-4, "*Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements"* ("EITF 06-4"). This issue provides guidance on the recognition and measurement of assets related to collateral assignment split-dollar life insurance arrangements. The adoption of EITF 06-4 resulted in a decrease to policyholders' equity of $41.

Effective January 1, 2008, the Company adopted EITF issue No. 06-10, "*Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements* ("EITF 06-10"). This issue requires a company to recognize a liability for future life insurance benefits in accordance with SFAS 106 or Opinion 12. The adoption of EITF 06-10 had no impact on the Company's financial statements.

Future Adoption of New Accounting Standards

In December 2007, the FASB issued SFAS No. 141(R), "*Applying the Acquisition Method"* ("SFAS 141(R)"). This issue will result in significant changes to accounting for business combinations. Prospective adoption is required and early adoption is not permitted. The Company is required to adopt SFAS 141(R) effective January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, "*Accounting for Noncontrolling Interests"* ("SFAS 160"). SFAS 160 will result in the consolidation of all non-controlling interests within the income statement and balance sheet of the Company for all consolidated subsidiaries. SFAS 160 is required to be adopted on January 1, 2009. Prospective adoption is required, except for the required reclassifications which are to be applied retrospectively. Early adoption is not permitted. The Company is in the process of evaluating the impact of adoption.

In March 2008, FASB issued SFAS No. 161, "*Disclosures about Derivative Instruments and Hedging Activities"* ("SFAS 161"). SFAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is in the process of evaluating the impact of adoption.

In May 2008, the FASB issued SFAS No. 162, "*The Hierarchy of Generally Accepted Accounting Principles"* ("SFAS 162"). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of entities that are presented in conformity with generally accepted accounting principles in the United States. This Statement is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. The Company is in the process of evaluating the impact of adoption.

In May 2008, the FASB issued SFAS No. 163, "*Accounting for Financial Guarantee Insurance Contracts – an interpretation of FASB Statement No. 60,"* ("SFAS 163"). SFAS 163 is intended to increase comparability in financial reporting of financial guarantee insurance contracts by insurance companies. SFAS 163 requires that an insurance enterprise recognize a claim liability prior to an event of default when there is evidence that credit deterioration has occurred in an insured financial obligation. This Statement also clarifies how Statement 60 applies to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities. SFAS 163 is effective for fiscal years beginning after December 15, 2008. As the Company does not write financial guarantee insurance contracts, SFAS 163 will have no impact.

(dollars in millions, except per share amounts)

Accumulated Other Comprehensive Income

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

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

	September 30, 2008	December 31, 2007
Unrealized (losses) gains on securities	($1,439)	$574
Foreign currency translation & other adjustments	275	456
Minimum pension liability	(274)	(285)
Accumulated other comprehensive (loss) income	($1,438)	$745

(2) ACQUISITIONS AND GOODWILL

On September 22, 2008, the Company, through its subsidiaries, acquired all outstanding shares of common stock of Safeco Corporation for approximately $6,200. Preliminary goodwill and intangible assets (excluding acquired in-force policy intangibles) recognized from the transaction was approximately $3,400. The Company is in the process of finalizing the fair value of the acquired business and related restructuring efforts, therefore, the allocation of the purchase price is subject to refinement. The results of operations of Safeco Corporation are included in the Company's financial statements subsequent to September 22, 2008.

On January 9, 2008, the Company through its Brazilian subsidiary, Liberty International Brazil Ltda., acquired Indiana Seguros, S.A., a writer of auto insurance in Brazil. Goodwill recognized from the transaction was $102. The results of operations of Indiana Seguros, S.A. are included in the Company's financial statements subsequent to January 9, 2008.

On August 24, 2007, the Company, through its subsidiaries, acquired all outstanding shares of common stock of Ohio Casualty Corporation ("Ohio Casualty") for $2,784. Goodwill and intangible assets (excluding acquired in-force policy intangibles) recognized from the transaction was $1,151. The results of operations of Ohio Casualty are included in the Company's financial statements subsequent to August 24, 2007.

Restructuring Activities

As part of the Ohio Casualty acquisition, management has received board authorization to implement certain restructuring efforts, principally employee and contract terminations. Changes to the restructuring reserves as of and for the nine months ended September 30, 2008 are as follows:

	2008
Balance at beginning of year	$27
Payments applied against liability	(13)
Balance at September 30, 2008	$14

(3) REINSURANCE

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 7.7% annually. These contracts resulted in deferred gains (including experience related profit accruals of $195) that are amortized into income using the effective interest method over the estimated settlement periods. At September 30, 2008, and December 31, 2007, deferred gains related to these reinsurance arrangements were $749 and $786, respectively, and are included in other liabilities within the consolidated balance sheets. Interest credited to the funds held balances for the three months and nine months ended September 30, 2008, was $30 and $89, respectively, as compared to $29 and $86, for the three months and nine months ended September 30, 2007, respectively. Deferred gain amortization for the three months and nine months ended September 30, 2008, was $16 and $49, respectively, as compared to $16 and $45 for the three months and nine months ended September 30, 2007, respectively. Reinsurance recoverables related to these transactions, including experience related profit accruals, were $2,179 and $2,222 as of September 30, 2008, and December 31, 2007, respectively.

Additionally, the Company has an aggregate stop loss program covering substantially all of Commercial Markets voluntary workers compensation business from the fourth quarter 2000 through the fourth quarter 2002 accident year periods. Under these contracts, losses in excess of a specified loss ratio are reinsured up to a maximum loss ratio and were accounted for as prospective reinsurance at inception. However, due to a material contract change at the January 1, 2002 renewal, premium and loss activity subsequent to December 31, 2001 is now accounted for as retroactive reinsurance for coverage provided from the fourth quarter 2000 through the fourth quarter 2001 covered accident year periods.

(dollars in millions, except per share amounts)

In 2006, the Company entered into multi-year property catastrophe reinsurance agreements with Mystic Re Ltd. ("Mystic Re"), a Cayman Islands domiciled reinsurer, to provide $525 of additional reinsurance coverage for the Company in the event of a Northeast hurricane. The reinsurance agreements are collateralized through a trust and guarantee received by Mystic Re from the issuance of catastrophe bonds and provide coverage for hurricane-related losses from Washington, D.C. to Maine based on industry insured losses as reported by Property Claim Services. In 2007, the Company supplemented this reinsurance in a similar transaction with Mystic Re II Ltd. ("Mystic Re II"), a Cayman Islands domiciled reinsurer, to provide $150 of additional reinsurance coverage for the Company in the event of a Northeast and/or Florida hurricane event. The Company has not recorded any recoveries under these programs. Neither Mystic Re nor Mystic Re II has any other reinsurance in force.

(4) DEBT OUTSTANDING

Debt outstanding at September 30, 2008, and December 31, 2007, includes the following:

Short-term debt:

	2008	2007
Commercial paper	$ -	$ -
Revolving credit facilities	-	70
Current maturities of long-term debt	18	21
Total short-term debt	$18	$91

Long-term debt:

	2008	2007
4.875% Notes, due 2010[1]	$300	$ -
7.25% Notes, due 2012[1]	204	-
8.00% Notes, due 2013	260	260
7.86% Medium Term Notes, due 2013	25	25
5.75% Notes, due 2014	500	500
7.30% Notes, due 2014[2]	200	200
6.70% Notes, due 2016	250	250
7.00% Subordinated Notes, due 2067[3]	300	300
8.50% Surplus Notes, due 2025	150	150
7.875% Surplus Notes, due 2026	250	250
7.63% Notes, due 2028	3	3
7.00% Notes, due 2034	250	250
6.50% Notes, due 2035	500	500
7.50% Notes, due 2036	500	500
7.80% Subordinated Notes, due 2087[4]	700	700
10.75% Subordinated Notes, due 2088[5]	1,250	-
7.697% Surplus Notes, due 2097	500	500
	6,142	4,388
Unamortized discount[6]	(54)	(28)
Total long-term debt excluding current maturities	$6,088	$4,360

[1] Reflects debt assumed from Safeco acquisition.
[2] Reflects debt assumed from Ohio Casualty acquisition.
[3] The par value call date and final fixed rate interest payment date is March 15, 2017, subject to certain requirements.
[4] The par value call date and final fixed rate interest payment date is March 15, 2037, subject to certain requirements.
[5] The par value call date and final fixed rate interest payment date is June 15, 2038, subject to certain requirements
[6] Reflects purchase accounting adjustment related to Ohio Casualty $200 senior notes, due 2014, Safeco $300 senior note, due 2010, and Safeco $204 notes, due 2012.

Short-term Debt

On September 2, 2008, Liberty Mutual Insurance Company ("LMIC")entered into a $750 364 day repurchase agreement facility for general corporate purposes. To date, no funds have been borrowed under the facility.

Liberty Corporate Capital Limited entered into a $100 364 day revolving credit facility, which became effective October 26, 2007. The facility is available to provide working capital to the Company's Lloyd's Syndicate business. The 364 day credit facility is guaranteed by LMIC. As of September 30, 2008, no borrowings were outstanding under the facility.

The Company issues commercial paper to meet short-term operating needs. The total facility was $1,000 at September 30, 2008 and December 31, 2007, and is supported by a $750 line of credit facility. There was zero commercial paper issued and outstanding at September 30, 2008 and December 31, 2007.

On April 5, 2007, Liberty Mutual Group Inc. entered into a $250 3-year unsecured revolving credit facility for general corporate purposes. No funds have been borrowed to date under the facility.

Long-term Debt

On September 22, 2008, the Company assumed $300 of 4.875% Notes due 2010 and $204 of 7.25% Notes due 2012 as a result of the Safeco Corporation acquisition.

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

On May 29, 2008, LMGI issued Series C junior subordinated notes (the "Series C Notes") with a face amount of $1,250. The Series C Notes are scheduled for redemption on June 15, 2058 with a final maturity of June 15, 2088. LMGI may redeem the Series C Notes in whole or in part, on June 15, 2038 and on each interest payment date thereafter at their principal amount plus accrued and unpaid interest to the date of redemption, or prior to June 15, 2038, (i) in whole or in part at any time at their principal amount or, if greater, a make-whole price, or (ii) in certain circumstances, in whole at their principal amount plus accrued and unpaid interest to the date of redemption or, if greater, a special event make-whole price. Interest is payable semi-annually at a fixed rate of 10.75% up to, but excluding, the final fixed rate interest payment date. In the event the Series C Notes are not redeemed on or before the final fixed rate interest payment date, interest will accrue at an annual rate of three-month LIBOR plus 7.12%, payable quarterly in arrears. LMGI has the right to defer interest payments on the Series C Notes for a period up to ten years. Interest compounds during periods of deferral. In connection with the issuance of the Series C Notes, LMGI entered into a replacement capital covenant ("RCC"). As part of the RCC, LMGI agreed that it will not repay, redeem, defease or purchase the Notes on or before the relevant RCC termination date unless, subject to certain limitations, it has received proceeds from the sale of specified capital securities. The RCC will terminate upon the occurrence of certain events, including an acceleration of the Notes, and may not be enforced by the holders of the Series C Notes. The RCC is for the benefit of holders of the specified series of LMGI's indebtedness (initially LMGI's 7.50% senior notes due 2036).

(5) SFAS 157 – FAIR VALUE MEASUREMENT

The Company adopted Statement of Financial Accounting Standard No. 157, *Fair Value Measurement*, ("SFAS 157") effective January 1, 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States, and enhances disclosures about fair value measurements. SFAS 157 provides guidance on how to measure fair value when required under existing accounting standards. The statement establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels ("Level 1, 2 and 3"). Level 1 inputs are observable inputs that reflect quoted prices for identical assets or liabilities in active markets the Company has the ability to access at the measurement date. Level 2 inputs are observable inputs, other than quoted prices included in Level 1, for the asset or liability. Level 3 inputs are unobservable inputs reflecting the Company's estimates of the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). Certain derivatives recorded at fair value based on the requirements of Statement of Financial Accounting Standard No. 133, *Accounting for Derivative Instruments and Hedging Activities,* are impacted by the application of SFAS 157. The Company has variable annuity contracts containing embedded derivatives that are affected by SFAS 157, but the impact is immaterial.

The hierarchy requires the use of market observable information when available for assessing fair value. The following table summarizes the Company's assets and liabilities that are measured at fair value on a recurring basis as of September 30, 2008, along with a brief description of the valuation technique for each type of asset and liability:

(dollars in millions, except per share amounts)

Assets, at Fair Value	**Level 1**	**Level 2**	**Level 3**	**Total**
Fixed maturities, available for sale	$1,021	$45,822	$911	$47,754
Equity securities, available for sale	2,203	454	115	2,772
Trading securities	-	15	-	15
Commercial mortgage loans	-	-	975	975
Short-term investments	71	1,156	85	1,312
Other investments	-	103	59	162
Separate account assets	1,280	1,866	21	3,167
Other assets	20	19	15	54
Total assets	$4,595	$49,435	$2,181	$56,211
Liabilities, at Fair Value				
Life insurance obligations	$ -	$ -	$134	$134
Total liabilities	$ -	$ -	$134	$134

Fixed maturities and short-term investments are recorded at fair value in the Company's financial statements. In instances where there are quoted prices in active markets for identical instruments, as is the case within the US Treasury market, these securities are categorized as Level 1 of the fair value hierarchy. For securities where the fair value of fixed income securities are estimated using recently executed transactions, market price quotations, bond spreads, or models that have inputs from published interest rate yield curves, these securities are generally categorized as Level 2 of the hierarchy. Additionally, in some instances where fixed income securities use significant inputs that are unobservable, they are categorized as Level 3 of the hierarchy.

Equity securities are recorded at fair value in the Company's financial statements. The fair value of common stocks are generally based on quoted prices in active markets. As such, common stocks are generally categorized as Level 1 of the fair value hierarchy. The fair value of preferred stocks are generally determined by quoted prices for similar instruments in active markets, hence they are categorized as Level 2 of the fair value hierarchy.

Commercial mortgage loans are carried at amortized cost less a valuation allowance for potential uncollectible amounts on the Company's consolidated balance sheet. The table above reflects the fair value of the commercial mortgage loans portfolio. Fair value of the commercial mortgage loans is valued based on origination price and collateral performance credit events since origination, hence these loans are classified in Level 3 of the fair value hierarchy as significant inputs are unobservable.

Other investments includes primarily international loans, foreign cash deposits and co-investments. International loans and cash deposits are primarily valued using quoted prices for similar instruments in active markets; these assets are categorized as Level 2 of the fair value hierarchy. Additionally, co-investments are valued using internal management estimates; they are categorized as Level 3 of the hierarchy. Limited partnership investments, which represent the remainder of the other investment balance on the consolidated balance sheet are not subject to SFAS 157 and therefore are excluded from the above table.

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

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

Life insurance obligations include certain variable annuity contracts which contain guaranteed minimum income benefits that under SFAS 133 contain embedded derivatives and are bifurcated from the host contract and carried at fair value. The measurements on these embedded derivatives is computed on a recurring basis using assumptions predominately classified as level 3 (significant unobservable) inputs. While some inputs are observable in the market such as risk free rates, volatility and historical equity returns, the underlying future policyholder behavior inputs are highly unobservable. These assumptions include mortality, lapse, and the underlying take-up rate with regard to annuitization.

(dollars in millions, except per share amounts)

The following table sets forth the fair values of assets on a recurring basis classified as level 3 within the fair value hierarchy:

	Balance January 1, 2008	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Net Purchases, (Sales) and (Maturities)	Transfer in and/ or out of Level 3	Balance September 30, 2008
Fixed maturities	$825	($3)	($26)	$35	$80	$911
Equity securities	43	(3)	(9)	86	(2)	115
Commercial mortgage loans	645	-	(42)	372	-	975
Short-term investments	70	-	(6)	21	-	85
Other investments	41	1	7	10	-	59
Separate account assets	23	(1)	1	-	(2)	21
Other assets	13	1	-	1	-	15
Total assets	$1,660	($5)	($75)	$525	$76	$2,181
Life insurance obligations	$105	$51	$-	($22)	$-	$134
Total liabilities	$105	$51	$-	($22)	$-	$134

There were no material unrealized gains (losses) for the period included in earnings attributable to the fair value relating to assets and liabilities classified as level 3 that are still held at September 30, 2008.

For the nine months ended September 30, 2008, there were impairments of $12 recognized for items measured at fair value on a nonrecurring basis.

(6) BENEFIT PLANS

The net benefit costs for the three months ended September 30, 2008, and 2007, include the following components:

Three months ended September 30,	**Pension Benefits**		**Supplemental * Pension Benefits**		**Postretirement Benefits**	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
Components of net periodic benefit costs						
Service costs	$35	$36	$2	$2	$4	$5
Interest costs	60	53	3	4	10	7
Expected return on plan assets	(65)	(56)	-	-	-	-
Amortization of unrecognized:						
Net loss	3	9	2	1	-	(1)
Prior service cost	2	2	1	1	(1)	-
Net transition (assets)/obligation	(2)	(2)	-	-	3	3
Net periodic benefit costs	$33	$42	$8	$8	$16	$14

* The Company sponsors supplemental retirement plans to provide pension benefits above the levels provided by the pension plans without regard to the statutory earnings limitations of qualified defined benefit pension plans. The supplemental plans are unfunded.

(dollars in millions, except per share amounts)

The net benefit costs for the nine months ended September 30, 2008, and 2007, include the following components:

Nine months ended September 30,	**Pension Benefits**		**Supplemental * Pension Benefits**		**Postretirement Benefits**	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
Components of net periodic benefit costs						
Service costs	$105	$106	$7	$6	$15	$14
Interest costs	180	151	11	10	29	22
Expected return on plan assets	(195)	(165)	-	-	(1)	(1)
Amortization of unrecognized:						
Net loss	8	27	4	3	(1)	-
Prior service cost	5	3	2	2	(2)	(2)
Net transition (assets)/obligation	(5)	(5)	-	-	7	7
Net periodic benefit costs	$98	$117	$24	$21	$47	$40

* The Company sponsors supplemental retirement plans to provide pension benefits above the levels provided by the pension plans without regard to the statutory earnings limitations of qualified defined benefit pension plans. The supplemental plans are unfunded.

(7) COMMITMENTS AND CONTINGENT LIABILITIES

Armstrong World Industries Inc. ("Armstrong"), a signatory to the Wellington Agreement, a 1985 settlement agreement involving a number of asbestos products manufacturers and their insurers (the "Wellington Agreement"), is the Company's remaining Tier I asbestos defendant with unresolved claims and coverage disputes. The Company has been in various insurance coverage disputes with Armstrong for over twenty years.

Armstrong filed a Chapter 11 Bankruptcy petition in the United States Bankruptcy Court for the District of Delaware in December 2000. A plan of reorganization was confirmed in August 2006, and Armstrong formally emerged from bankruptcy as of October 2, 2006.

A Declaratory Judgment action, filed against the Company by Armstrong in 2002, is pending in the United States District Court for the Eastern District of Pennsylvania (the "Pennsylvania Coverage Action") seeking coverage for asbestos claims under insurance policies issued to Armstrong during the period 1977 to 1981, including damages and a declaration regarding the availability, applicability and scope of alleged non-product coverage. Armstrong contends that a significant portion of its asbestos liability arises from operations that would entitle Armstrong to insurance coverage under the disputed policies without regard to the aggregate limit of liability. The Pennsylvania Coverage Action is currently in the initial pleading stages and, while it has been inactive by agreement of the parties since 2002, the court reactivated the case at a scheduling conference on October 22, 2007. The parties are currently in the early stages of exchanging paper discovery. A Scheduling Order has not yet been entered by the Court.

In July 2004, the Company prevailed in a favorable arbitration ruling before an appellate panel regarding Armstrong's available insurance coverage under policies in effect from 1973-1977. Subsequently, Armstrong filed in the United States District Court for the Eastern District of Pennsylvania, a motion to vacate that favorable ruling. The Company has filed a cross motion seeking to confirm the final decision. Both motions remain pending at this time.

The Company intends to vigorously defend its position in all pending litigation with Armstrong, including any argument that coverage issues were finally determined in the bankruptcy proceedings. Management believes that the ultimate liability, if any, to Armstrong will not be resolved for at least one year and very likely may not be known for several years. In the opinion of management, the outcome of these pending matters is difficult to predict and an adverse outcome could have a material adverse effect on the Company's business, financial condition, and results of operations.

As of September 30, 2008, the Company had unfunded commitments in traditional private equity partnerships, energy and other, real estate, and commercial mortgage loans of $1,070, $467, $463 and $70, respectively. As of September 30, 2008, the Company had commitments to purchase various residential mortgage-backed securities at a cost and fair market value of $5 and $5, respectively.