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

Quarter Ended September 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 nine months ended September 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, September 30, 2013 Unaudited Consolidated Financial Statements and Third 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

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 September 30, 2013 - Consolidated Results of Operations

- Revenues for the three months ended September 30, 2013 were $10.020 billion, an increase of $742 million or 8.0% over the same period in 2012.
- Net written premium ("NWP") for the three months ended September 30, 2013 was $9.358 billion, an increase of $707 million or 8.2% over the same period in 2012.
- Pre-tax operating income ("PTOI") before LP and LLC income for the three months ended September 30, 2013 was $534 million, an increase of $65 million or 13.9% over the same period in 2012.
- PTOI for the three months ended September 30, 2013 was $622 million, an increase of $111 million or 21.7% over the same period in 2012.
- Loss on extinguishment of debt for the three months ended September 30, 2013 was $96 million, versus zero in the same period in 2012. One hundred and sixty-four million dollars of debt at an interest rate of 10.75% was repurchased in the quarter.
- Net income attributable to LMHC for the three months ended September 30, 2013 was $481 million, an increase of $16 million or 3.4% over the same period in 2012.
- Cash flow from operations for the three months ended September 30, 2013 was $1.578 billion, an increase of $559 million or 54.9% 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 September 30, 2013 was 95.3%, a decrease of 1.6 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 September 30, 2013 decreased 0.2 points to 99.2%.

Nine Months Ended September 30, 2013 - Consolidated Results of Operations

- Revenues for the nine months ended September 30, 2013 were $28.989 billion, an increase of $1.673 billion or 6.1% over the same period in 2012.
- NWP for the nine months ended September 30, 2013 was $26.844 billion, an increase of $1.780 billion or 7.1% over the same period in 2012.
- PTOI before LP and LLC income for the nine months ended September 30, 2013 was $1.516 billion, an increase of $543 million or 55.8% over the same period in 2012.

[1]Catastrophes include all current accident year catastrophe losses for severe storms in the U.S., Cyclone Oswald, Central Europe floods, Alberta floods and Germany hail storms. 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 six months ended June 30, 2013 and June 30, 2012.

- PTOI for the nine months ended September 30, 2013 was $1.872 billion, an increase of $645 million or 52.6% over the same period in 2012.

- Loss on extinguishment of debt for the nine months ended September 30, 2013 was $156 million, a decrease of $7 million or 4.3% from the same period in 2012. Two hundred and sixty-eight million dollars of debt at an interest rate of 10.75% was repurchased year-to-date and $600 million of senior debt was issued with an interest rate 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 nine months ended September 30, 2013 was $1.247 billion, an increase of $184 million or 17.3% over the same period in 2012.

- Cash flow from operations for the nine months ended September 30, 2013 was $3.149 billion, an increase of $905 million or 40.3% over the same period in 2012.

- The consolidated combined ratio before catastrophes and net incurred losses attributable to prior years for the nine months ended September 30, 2013 was 94.9%, a decrease of 2.2 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 nine months ended September 30, 2013 decreased 2.3 points to 99.7%.

Financial Condition as of September 30, 2013

- Total assets were $121.991 billion as of September 30, 2013, an increase of $1.931 billion over December 31, 2012.

- Total equity was $18.340 billion as of September 30, 2013, a decrease of $185 million from December 31, 2012.

Subsequent Event

On October 2, 2013, LMGI repurchased an additional $56 million of the 10.75% Junior Subordinated Notes due 2088 at a pre-tax loss of $32 million, resulting in an outstanding balance of $296 million. The Company continues to evaluate market conditions and may periodically effect transactions in its debt, subject to applicable limitations.

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 before LP and LLC income and PTOI are considered by the Company to be appropriate indicators of underwriting and operating results and are consistent with the way the Company internally evaluates performance. Net realized gains and LP and LLC results are significantly impacted by both discretionary and economic factors and are not necessarily indicative of operating results, and the timing and amount of integration and other acquisition 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 $17 million, respectively, were included in the results through the third quarter of 2013, along with $178 million of PTOI.

The four 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.

- 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").

Overview – Consolidated

Consolidated NWP by significant line of business was as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Private passenger automobile	$3,375	$3,076	9.7%	$9,436	$8,604	9.7%
Homeowners	1,324	1,085	22.0	3,601	2,918	23.4
Workers compensation - Voluntary	806	956	(15.7)	2,366	2,994	(21.0)
Workers compensation - Involuntary	30	48	(37.5)	91	101	(9.9)
Commercial multiple-peril / fire	702	685	2.5	1,978	1,968	0.5
Syndicate 4472	436	380	14.7	1,488	1,298	14.6
Commercial automobile	484	480	0.8	1,394	1,411	(1.2)
General liability	376	338	11.2	1,047	980	6.8
Group disability and group life	339	294	15.3	968	860	12.6
LIU third party	274	223	22.9	864	708	22.0
Individual life and health	261	200	30.5	746	640	16.6
Surety	198	192	3.1	559	550	1.6
LIU inland marine program	154	135	14.1	442	376	17.6
LIU first party	83	81	2.5	266	282	(5.7)
Other[1]	516	478	7.9	1,598	1,374	16.3
Total NWP[2]	$9,358	$8,651	8.2%	$26,844	$25,064	7.1%

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 September 30,			Nine Months Ended September 30,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Personal Insurance	$4,205	$3,764	11.7%	$11,644	$10,392	12.0%
Commercial Insurance	2,464	2,544	(3.1)	6,996	7,511	(6.9)
Liberty International	1,533	1,421	7.9	4,311	4,122	4.6
Global Specialty	1,227	1,077	13.9	3,890	3,338	16.5
Corporate and Other	(71)	(155)	(54.2)	3	(299)	NM
Total NWP	$9,358	$8,651	8.2%	$26,844	$25,064	7.1%
Foreign exchange effect on growth			(3.2)			(2.5)
NWP growth excluding foreign exchange[1]			11.4%			9.6%

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

Major drivers of NWP growth were as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
$ in Millions	**2013**	**2012**	**$ Change**	**Points Attribution**	**2013**	**2012**	**$ Change**	**Points Attribution**
Total NWP[1]	$9,358	$8,651	$707	8.2	$26,844	$25,064	$1,780	7.1
Components of Growth:								
Domestic personal automobile	2,449	2,226	223	2.6	6,879	6,213	666	2.7
-Domestic homeowners	1,388	1,249	139	1.6	3,756	3,334	422	1.7
-Homeowners quota share	(125)	(221)	96	1.1	(337)	(588)	251	1.0
Total domestic homeowners	1,263	1,028	235	2.7	3,419	2,746	673	2.7
International local businesses (ex foreign exchange)[2]	1,799	1,421	378	4.4	4,928	4,122	806	3.2
LIU (ex foreign exchange)[2]	541	463	78	0.9	1,670	1,429	241	1.0
Syndicate 4472 (ex foreign exchange)[2]	438	380	58	0.7	1,488	1,298	190	0.8
Domestic individual life	142	87	55	0.6	384	289	95	0.4
Domestic group disability and group life	238	198	40	0.5	672	591	81	0.3
Surety	198	192	6	0.1	559	550	9	-
Foreign exchange[2]	(273)	-	(273)	(3.2)	(621)	-	(621)	(2.5)
Other commercial lines	2,563	2,656	(93)	(1.1)	7,466	7,826	(360)	(1.5)
Total NWP	$9,358	$8,651	$707	8.2	$26,844	$25,064	$1,780	7.1

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 September 30,			Nine Months Ended September 30,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
U.S.	$7,206	$6,715	7.3%	$20,494	$19,230	6.6%
International[1]	2,152	1,936	11.2	6,350	5,834	8.8
Total NWP	$9,358	$8,651	8.2%	$26,844	$25,064	7.1%

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

NWP for the three and nine months ended September 30, 2013 was $9.358 billion and $26.844 billion, respectively, increases of $707 million and $1.780 billion over the same periods in 2012. Significant changes by major line of business include:

- Private passenger automobile NWP increased $299 million and $832 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, rate increases in Personal Insurance, organic growth in Liberty International, primarily in Latin America (Venezuela, primarily due to inflation and higher average written premium in Brazil), and organic growth in Europe (primarily due to the addition of the United Kingdom), partially offset by the Venezuela devaluation.
- Homeowners NWP increased $239 million and $683 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 reduction in the premium ceded under the external homeowners quota share treaty.

- Workers compensation - Voluntary NWP decreased $150 million and $628 million in the quarter and year-to-date, respectively. The decreases in both periods primarily reflect exposure reductions due to disciplined underwriting, partially offset by rate increases. The year was also impacted by the 2012 sale of the Argentina workers compensation company, partially offset by the "booked as billed" adjustment in Corporate and Other.
- Syndicate 4472 NWP increased $56 million and $190 million in the quarter and year-to-date, respectively. The increases in both periods primarily reflect new business growth.
- General liability NWP increased $38 million and $67 million in the quarter and year-to-date, respectively. The increases in both periods primarily reflect rate increases.
- Group disability and group life NWP increased $45 million and $108 million in the quarter and year-to-date, respectively. The increases in both periods primarily reflect an increase in new business in Commercial Insurance, including a large account transaction recorded in the third quarter of 2013.
- LIU third party NWP increased $51 million and $156 million in the quarter and year-to-date, respectively. The increases in both periods primarily reflect favorable rates, new business and a reinsurance program change.
- Individual life and health NWP increased $61 million and $106 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 $19 million and $66 million in the quarter and year-to-date, respectively. The increases primarily reflect subscriber growth, pricing mix and the inception of a new program in the second quarter of 2012.

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 September 30,			Nine Months Ended September 30,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Revenues	$10,020	$9,278	8.0%	$28,989	$27,316	6.1%
PTOI before catastrophes, net incurred losses attributable to prior years, Venezuela devaluation, current accident year re-estimation and LP and LLC income	$816	$646	26.3%	$2,491	$2,041	22.0%
Catastrophes[1]	(279)	(153)	82.4	(1,158)	(1,212)	(4.5)
Net incurred losses attributable to prior years:						
- Asbestos & environmental[2]	(279)	(53)	NM	(283)	(58)	NM
- All other[3]	241	82	193.9	305	202	51.0
Venezuela devaluation	43	-	NM	161	-	NM
Current accident year re-estimation[4]	(8)	(53)	(84.9)	-	-	-
PTOI before LP and LLC income	534	469	13.9	1,516	973	55.8
LP and LLC income[5]	88	42	109.5	356	254	40.2
PTOI	622	511	21.7	1,872	1,227	52.6
Net realized gains (losses)	80	128	(37.5)	(54)	349	NM
SBU realignment benefit (expense)	11	(42)	NM	8	(42)	NM
Loss on extinguishment of debt	(96)	-	NM	(156)	(163)	(4.3)
Pre-tax income	617	597	3.4	1,670	1,371	21.8
Income tax expense	138	132	4.5	434	315	37.8
Consolidated net income	479	465	3.0	1,236	1,056	17.0
Less: Net loss attributable to non-controlling interest	(2)	-	NM	(11)	(7)	57.1
Net income attributable to LMHC	$481	$465	3.4%	$1,247	$1,063	17.3%
Cash flow from operations	$1,578	$1,019	54.9%	$3,149	$2,244	40.3%

1 Catastrophes include all current accident year catastrophe losses for severe storms in the U.S., Cyclone Oswald, Central Europe floods, Alberta floods and Germany hail storms. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

2 2013 includes $278 million of strengthening of asbestos and environmental related reserves.

3 Net of earned premium and reinstatement premium attributable to prior years of $93 million and $211 million for the three and nine months ended September 30, 2013 and $20 million and $54 million for the same periods in 2012. Net of amortization of deferred gains on retroactive reinsurance of $159 million and $179 million for the three and nine months ended September 30, 2013 and $11 million and $32 million for the same periods in 2012.

4 Re-estimation of the current accident year loss reserves for the six months ended June 30, 2013 and June 30, 2012.

5 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 nine months ended September 30, 2013 was $622 million and $1.872 billion, respectively, increases of $111 million and $645 million over the same periods in 2012. The increases in both periods primarily reflect improved Personal Insurance and Commercial Insurance results excluding catastrophes and net incurred losses attributable to prior years, higher LP and LLC income, and the Venezuela devaluation, partially offset by higher unfavorable prior year loss development in the quarter and lower favorable loss reserve development for the nine months and reduced net investment income, excluding LP and LLC income, due to lower investment yields. The year was also favorably impacted by lower catastrophe losses, while the quarter reflects higher catastrophe losses and lower adverse current accident year reserve re-estimation.

Revenues for the three and nine months ended September 30, 2013 were $10.020 billion and $28.989 billion, respectively, increases of $742 million and $1.673 billion 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 nine months ended September 30, 2013 was $8.914 billion and $25.837 billion, respectively, increases of $767 million and $2.061 billion over the same periods in 2012. The increases in both periods primarily reflect the premium earned associated with the previously mentioned NWP growth in 2013 and during the last quarter of 2012.

Net investment income for the three and nine months ended September 30, 2013 was $700 million and $2.291 billion, respectively, decreases of $55 million and $158 million from the same periods in 2012. The decreases reflect a reduction in taxable interest income due to lower investment yields and valuation decreases in other equity method investments primarily related to impairment losses in the natural resources sector, partially offset by 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.

Net realized gains (losses) for the three and nine months ended September 30, 2013 were $80 million and ($54) million, respectively, versus $128 million and $349 million in the same periods in 2012. The decreases in net gains in both periods relate to gains recognized from security sales as part of tactical portfolio changes in both 2013 and 2012. Additionally the year was impacted by fixed maturity impairment losses of $223 million recognized as a result of the Venezuela devaluation in February 2013 being deemed other-than-temporary, as well as gains in 2012 that did not recur in 2013. These included gains in the energy sector as well as gains 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.

Fee and other revenues for the three and nine months ended September 30, 2013 were $326 million and $915 million, respectively, increases of $78 million and $173 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 and third-party administrator fee income.

Claims, benefits and expenses for the three and nine months ended September 30, 2013 were $9.318 billion and $27.171 billion, respectively, increases of $679 million and $1.431 billion over the same periods in 2012. The increases reflect overall business growth, unfavorable prior year loss development including increases in asbestos and environmental reserves versus 2012, and higher variable compensation costs. The year was also favorably impacted by lower catastrophe losses, while the quarter resulted in higher catastrophe losses and lower adverse current accident year reserve re-estimation. .

Loss on extinguishment of debt for the three and nine months ended September 30, 2013 was $96 million and $156 million, respectively, an increase of $96 million and a decrease of $7 million versus the same periods in 2012. Two hundred and sixty-eight million dollars of debt at an interest rate of 10.75% was repurchased year-to-date and $600 million of senior debt was issued with an interest rate 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 nine months ended September 30, 2013 was $138 million and $434 million, respectively, increases of $6 million and $119 million over the same periods in 2012. The Company's effective tax rate for the three and nine months ended September 30, 2013 was 22% and 26% compared to 22% and 23% for the same periods in 2012. The increase in the effective tax rate for the nine months ended September 30, 2013 over 2012 is due to higher pre-tax income and the non-deductibility of the Venezuela devaluation related investment impairment loss of $223 million. 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 activities.

Net income attributable to LMHC for the three and nine months ended September 30, 2013 was $481 million and $1.247 billion, respectively, increases of $16 million and $184 million over the same periods in 2012.

Cash flow from operations for the three and nine months ended September 30, 2013 was $1.578 billion and $3.149 billion, respectively, increases of $559 million and $905 million over the same periods in 2012. Both periods reflect a change in terms in the homeowners quota share treaty, favorable collections due to written premium growth and increased gas and oil production revenue. The increase in the quarter was also driven by timing of pension contributions made in the prior third quarter but made earlier in 2013. The year-to-date was also favorably impacted by a workers compensation residual market litigation settlement and an Ireland reserve settlement with the Quinn Insurance Limited ("QIL") administrators.

	Three Months Ended September 30,			Nine Months Ended September 30,		
CONSOLIDATED	**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	65.6%	67.7%	(2.1)	64.7%	67.6%	(2.9)
Underwriting expense ratio	29.6	29.1	0.5	30.1	29.3	0.8
Dividend ratio	0.1	0.1	-	0.1	0.2	(0.1)
Subtotal	95.3	96.9	(1.6)	94.9	97.1	(2.2)
Catastrophes[2]	3.3	2.0	1.3	4.7	5.3	(0.6)
Net incurred losses attributable to prior years:						
- Asbestos & environmental	3.4	0.9	2.5	1.2	0.5	0.7
- All other[3]	(2.9)	(1.1)	(1.8)	(1.1)	(0.9)	(0.2)
Current accident year re-estimation[4]	0.1	0.7	(0.6)	-	-	-
Total combined ratio[5]	99.2%	99.4%	(0.2)	99.7%	102.0%	(2.3)

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 for severe storms in the U.S., Cyclone Oswald, Central Europe floods, Alberta floods and Germany hail storms. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.
3 Net of earned premium and reinstatement premium attributable to prior years.
4 Re-estimation of the current accident year loss reserves for the six months ended June 30, 2013 and June 30, 2012.
5 The combined ratio, expressed as a percentage, is a measure of underwriting profitability. This measure should only be used in conjunction with, and not in lieu of, underwriting income and may not be comparable to other performance measures used by the Company's competitors. The combined ratio is computed as the sum of the following property and casualty ratios: the ratio of claims and claim adjustment expense 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 nine months ended September 30, 2013 was 95.3% and 94.9%, decreases of 1.6 points and 2.2 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 LIU inland marine. The increases in the underwriting expense ratio reflect higher acquisition and start-up costs in certain international operations, a higher expense ratio in Commercial Insurance due to premium volume contraction, and higher variable compensation and benefit plan costs.

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 nine months ended September 30, 2013 was 99.2% and 99.7%, decreases of 0.2 points and 2.3 points from the same periods in 2012. The decreases in both periods reflect the changes in the combined ratio previously discussed as well as higher (non-asbestos and environmental) favorable net incurred losses attributable to prior years, including the commutation of certain workers compensation retroactive reinsurance agreements, partially offset by an increase in asbestos and environmental reserves. The year was also favorably impacted by lower catastrophe losses, while the quarter resulted in higher catastrophe losses.

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 2,500 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.

Personal Insurance NWP by market segment was as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Personal Lines	$2,427	$2,197	10.5%	$6,769	$6,118	10.6%
Safeco	1,778	1,567	13.5	4,875	4,274	14.1
Total NWP	$4,205	$3,764	11.7%	$11,644	$10,392	12.0%

Personal Insurance NWP by line of business was as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Private passenger automobile	$2,448	$2,226	10.0%	$6,872	$6,208	10.7%
Homeowners and other	1,619	1,453	11.4	4,397	3,904	12.6
Individual life	138	85	62.4	375	280	33.9
Total NWP	$4,205	$3,764	11.7%	$11,644	$10,392	12.0%

NWP for the three and nine months ended September 30, 2013 was $4.205 billion and $11.644 billion, respectively, increases of $441 million and $1.252 billion over the same periods in 2012.

Private passenger automobile NWP for the three and nine months ended September 30, 2013 was $2.448 billion and $6.872 billion, respectively, increases of $222 million and $664 million over the same periods in 2012. The increases reflect 6.9% growth in auto policies in-force as compared to September 30, 2012 as well as rate increases.

Homeowners and other NWP for the three and nine months ended September 30, 2013 was $1.619 billion and $4.397 billion, respectively, increases of $166 million and $493 million over the same periods in 2012. The increases reflect 6.0% growth in homeowners policies in-force as compared to September 30, 2012 as well as rate increases.

Individual life NWP for the three and nine months ended September 30, 2013 was $138 million and $375 million, respectively, increases of $53 million and $95 million over the same periods in 2012. The increases in both periods were primarily driven by structured settlement sales.

Results of Operations – Personal Insurance

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Revenues	$4,106	$3,677	11.7%	$11,821	$10,725	10.2%
PTOI before catastrophes and net incurred losses attributable to prior years	$689	$544	26.7%	$1,911	$1,663	14.9%
Catastrophes[1]	(95)	(85)	11.8	(806)	(924)	(12.8)
Net incurred losses attributable to prior years	(41)	233	NM	(51)	279	NM
PTOI	$553	$692	(20.1%)	$1,054	$1,018	3.5%

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

PTOI for the three and nine months ended September 30, 2013 was $553 million and $1.054 billion, respectively, versus $692 million and $1.018 billion in the same periods in 2012. The decrease in pre-tax operating income for the quarter was primarily due to favorable non-catastrophe incurred losses attributable to prior years in 2012 and unfavorable non-catastrophe prior year loss development in the auto liability line in 2013, partially offset by higher net earned premium and favorable current accident year non-catastrophe loss experience in the homeowners line of business. The increase in pre-tax operating income for the year was primarily due to higher net earned premium, lower current year catastrophes, as a result of an internal reinsurance treaty, and favorable current accident year non-catastrophe loss experience in the homeowners line of business, partially offset by unfavorable non-catastrophe prior year loss development in the auto liability line in 2013 and prior year non-catastrophe reserve releases in 2012.

Revenues for the three and nine months ended September 30, 2013 were $4.106 billion and $11.821 billion, respectively, increases of $429 million and $1.096 billion 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 nine months ended September 30, 2013 was $3.776 billion and $10.846 billion, respectively, increases of $431 million and $1.103 billion 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 last quarter of 2012.

Net investment income for the three and nine months ended September 30, 2013 was $266 million and $780 million, respectively, decreases of $5 million and $23 million from the same periods in 2012. The decreases were driven by lower yields, partially offset by an increase in the invested asset base.

Fee and other income for the three and nine months ended September 30, 2013 was $65 million and $191 million, respectively, increases of $8 million and $16 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 nine months ended September 30, 2013 were $3.554 billion and $10.763 billion, respectively, increases of $573 million and $1.060 billion over the same periods in 2012. Both periods experienced increases consistent with business growth, unfavorable non-catastrophe prior year loss development in the auto liability line in 2013 and non-catastrophe reserve releases in 2012. The increase in the quarter was also driven by catastrophe reserve releases in 2012. These items were partially offset by favorable current accident year non-catastrophe loss experience in the homeowners line of business in both periods and lower current year catastrophes as a result of an internal reinsurance treaty.

	Three Months Ended September 30,			Nine Months Ended September 30,		
			Change			Change
PERSONAL INSURANCE	**2013**	**2012**	**(Points)**	**2013**	**2012**	**(Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	59.7%	62.1%	(2.4)	59.9%	61.3%	(1.4)
Underwriting expense ratio	25.5	25.9	(0.4)	25.8	25.9	(0.1)
Subtotal	85.2	88.0	(2.8)	85.7	87.2	(1.5)
Catastrophes[1]	2.7	2.7	-	7.7	9.8	(2.1)
Net incurred losses attributable to prior years	1.1	(7.2)	8.3	0.5	(3.0)	3.5
Total combined ratio	89.0%	83.5%	5.5	93.9%	94.0%	(0.1)

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 nine months ended September 30, 2013 was 85.2% and 85.7%, respectively, decreases of 2.8 points and 1.5 points from the same periods in 2012. The decreases in the claims and claim adjustment expense ratio in both periods reflect favorable loss experience in the homeowners line of business. The decreases in the underwriting expense ratio in both periods are primarily due to earned premium growing at a faster rate than expenses.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three and nine months ended September 30, 2013 was 89.0% and 93.9%, respectively, an increase of 5.5 points for the quarter and a decrease of 0.1 points for the year versus the same periods in 2012. In addition to the changes in the combined ratio previously discussed, the increase in the quarter was driven by unfavorable non-catastrophe prior year loss development in the auto liability line of business in 2013 and prior year catastrophe and non-catastrophe reserve releases in 2012. The decrease in the year was driven by changes in the combined ratio as previously discussed and lower current year catastrophes as a result of an internal reinsurance treaty, partially offset by unfavorable non-catastrophe prior year loss development in the auto liability line of business in 2013 and non-catastrophe prior year reserve releases in 2012.

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.

Commercial Insurance NWP by market segment was as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Business Insurance	$1,557	$1,639	(5.0%)	$4,477	$4,884	(8.3%)
National Insurance	631	634	(0.5)	1,728	1,866	(7.4)
Group Benefits	238	198	20.2	671	590	13.7
Other Commercial Insurance	38	73	(47.9)	120	171	(29.8)
Total NWP	$2,464	$2,544	(3.1%)	$6,996	$7,511	(6.9%)

Commercial Insurance NWP by line of business was as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Workers compensation - Voluntary	$765	$915	(16.4%)	$2,181	$2,781	(21.6%)
Workers compensation - Involuntary	30	48	(37.5)	91	101	(9.9)
Commercial multiple-peril	560	551	1.6	1,528	1,566	(2.4)
Commercial automobile	375	374	0.3	1,077	1,110	(3.0)
General liability	305	274	11.3	841	801	5.0
Group disability and group life	238	198	20.2	671	590	13.7
Other lines	191	184	3.8	607	562	8.0
Total NWP	$2,464	$2,544	(3.1%)	$6,996	$7,511	(6.9%)

NWP for the three and nine months ended September 30, 2013 was $2.464 billion and $6.996 billion, respectively, decreases of $80 million and $515 million from the same periods in 2012. The decreases in both periods were primarily driven by workers compensation due to exposure reductions (19% and 26% in the quarter and year, respectively) including lower involuntary market premium, partially offset by rate increases (8% and 10% in the quarter and year, respectively). Both periods also reflect higher group disability and group life premium, including a single large account transaction recorded in the quarter. Partially offsetting the decrease in the quarter was an increase in new business premium and rate increases across all other lines of business.

Results of Operations – Commercial Insurance

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Revenues	$2,734	$2,892	(5.5%)	$8,101	$8,491	(4.6%)
PTOI before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation	$201	$156	28.8%	$645	$478	34.9%
Catastrophes[1]	(42)	(38)	10.5	(184)	(359)	(48.7)
Net incurred losses attributable to prior years[2]	32	35	(8.6)	126	148	(14.9)
Current accident year re-estimation[3]	(8)	(53)	(84.9)	-	-	-
PTOI	$183	$100	83.0%	$587	$267	119.9%

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 and reinstatement premium attributable to prior years of ($2) million and ($10) million for the three and nine months ended September 30, 2013 and $18 million and $40 million for the same periods in 2012. Net of amortization of deferred gains on assumed retroactive reinsurance of $1 million and $2 million for the three and nine months ended September 30, 2013 and for the same periods in 2012.

3 Re-estimation of the current accident year loss reserves for the six months ended June 30, 2013 and June 30, 2012.

PTOI for the three and nine months ended September 30, 2013 was $183 million and $587 million, respectively, increases of $83 million and $320 million over the same periods in 2012. The increases in both periods were driven by decreased current accident year losses across most lines of business and lower salary and benefit costs, partially offset by lower net investment income, higher variable compensation costs, increased information technology expenditures, and less favorable development of prior accident year losses. The quarter's improvement included lower current accident year re-estimation and the year was further impacted by lower catastrophe losses.

Revenues for the three and nine months ended September 30, 2013 were $2.734 billion and $8.101 billion, respectively, decreases of $158 million and $390 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 nine months ended September 30, 2013 was $2.360 billion and $6.986 billion, respectively, decreases of $130 million and $305 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 nine months ended September 30, 2013 was $279 million and $840 million, respectively, decreases of $42 million and $121 million from the same periods in 2012. The decreases in both periods were primarily driven by lower investment yields.

Fee and other revenues for the three and nine months ended September 30, 2013 were $95 million and $276 million, respectively, increases of $13 million and $37 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 nine months ended September 30, 2013 were $2.551 billion and $7.515 billion, decreases of $242 million and $709 million from the same periods in 2012. The decreases in both periods were driven by the reduction in exposures, primarily workers compensation, decreased current accident year losses across most lines of business and lower salary and benefit costs, partially offset by higher variable compensation costs, increased information technology expenditures, and less favorable development attributable to prior accident year losses. The year was further impacted by lower catastrophe losses.

	Three Months Ended September 30,			Nine Months Ended September 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	72.6%	77.9%	(5.3)	71.8%	77.9%	(6.1)
Underwriting expense ratio	29.8	28.3	1.5	30.1	28.7	1.4
Dividend ratio	0.4	0.4	-	0.4	0.4	-
Subtotal	102.8	106.6	(3.8)	102.3	107.0	(4.7)
Catastrophes[1]	2.0	1.6	0.4	2.9	5.4	(2.5)
Net incurred losses attributable to prior years[2]	(1.6)	(1.6)	-	(1.9)	(2.3)	0.4
Current accident year re-estimation[3]	0.4	2.3	(1.9)	-	-	-
Total combined ratio	103.6%	108.9%	(5.3)	103.3%	110.1%	(6.8)

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 and reinstatement premium attributable to prior years.

3 Re-estimation of the current accident year loss reserves for the six months ended June 30, 2013 and June 30, 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 nine months ended September 30, 2013 was 102.8% and 102.3%, respectively, decreases of 3.8 points and 4.7 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 most lines of business reflecting reduced workers compensation exposures, and rate increases across all lines. The increase in the underwriting expense ratio in both periods reflects higher variable compensation costs, lower earned premium, and increased information technology expenditures, partially offset by lower salary and benefit costs.

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 nine months ended September 30, 2013 was 103.6% and 103.3%, respectively, decreases of 5.3 points and 6.8 points from the same periods in 2012. The decrease in the quarter reflects the changes to the combined ratio previously discussed partially offset by higher current accident year catastrophe losses and lower re-estimation on current accident year losses. The decrease in the year reflects the changes to the combined ratio previously discussed and lower catastrophe losses, partially offset by less favorable incurred 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 Quinn Insurance Limited) 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. Private passenger automobile insurance is the single largest line of business.

Liberty International NWP by market segment was as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Latin America	$989	$936	5.7%	$2,722	$2,709	0.5%
Europe	409	373	9.7	1,205	1,093	10.2
Asia	131	112	17.0	379	320	18.4
India	4	-	NM	5	-	NM
Total NWP	$1,533	$1,421	7.9%	$4,311	$4,122	4.6%
Foreign exchange effect on growth			(18.7%)			(15.0%)
NWP growth excluding foreign exchange[1]			26.6%			19.6%

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 September 30,			Nine Months Ended September 30,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Private passenger automobile	$926	$850	8.9%	$2,557	$2,391	6.9%
Commercial automobile	109	106	2.8	316	302	4.6
Homeowners	61	57	7.0	182	172	5.8
Life and health	220	209	5.3	658	620	6.1
Other[1]	217	199	9.0	598	637	(6.1)
Total NWP	$1,533	$1,421	7.9%	$4,311	$4,122	4.6%

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 nine months ended September 30, 2013 was $1.533 billion and $4.311 billion, respectively, increases of $112 million and $189 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, higher average premium in Brazil and the acquisitions in Ecuador, and to a lesser extent, Europe, mainly attributable to the addition of the United Kingdom, as well as Asia, led by China and Thailand. The increases were partially offset by the impact of foreign exchange ($266 million in the quarter and $617 million in the year, primarily driven by the Venezuela devaluation and to a lesser extent, a weakened Brazilian real). The increase in the year also reflects the addition of Russia, partially offset by the 2012 sale of the Argentina workers compensation company.

Results of Operations – Liberty International

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Revenues	$1,586	$1,468	8.0%	$4,513	$4,449	1.4%
PTOI before catastrophes, net incurred losses attributable to prior years and Venezuela devaluation	$67	$63	6.3%	$147	$188	(21.8%)
Catastrophes[1]	-	-	-	-	-	-
Net incurred losses attributable to prior years[2]	6	(6)	NM	25	(15)	NM
Venezuela devaluation	43	-	NM	164	-	NM
PTOI	$116	$57	103.5%	$336	$173	94.2%

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 months and nine months ended September 30, 2013, respectively, and zero and ($1) million for the same periods in 2012.

NM = Not Meaningful

PTOI for the three and nine months ended September 30, 2013 was $116 million and $336 million, respectively, increases of $59 million and $163 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 Venezuela as a result of favorable claim experience led by the health line of business, partially offset by unfavorable underwriting results primarily driven by the start-up costs in the United Kingdom, unfavorable loss experience and commission expense due to increased competition in China and lower net investment income. The year was further impacted by unfavorable prior year reserve development in 2012 related to the Argentina workers compensation company that was sold in 2012.

Revenues for the three and nine months ended September 30, 2013 were $1.586 billion and $4.513 billion, increases of $118 million and $64 million over the same periods in 2012. The primary components of revenues are net premium earned, net investment income and net realized investment losses.

Net premium earned for the three and nine months ended September 30, 2013 was $1.439 billion and $4.299 billion, increases of $114 million and $319 million over the same periods in 2012. The increases in both periods reflect the previously mentioned growth in NWP in 2013, partially offset by the impact of foreign exchange.

Net investment income for the three and nine months ended September 30, 2013 was $107 million and $321 million, decreases of $2 million and $13 million from the same periods in 2012. The decrease in the year reflects reduced net investment income from the Argentina workers compensation company due to the sale of the company. The impact from a higher invested asset base due to the reinvestment of cash flows 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 Spain.

Net realized losses for the three and nine months ended September 30, 2013 were $4 million and $229 million, decreases of $1 million and $243 million from the same periods in 2012. The decrease in the year was primarily driven by an other than temporary impairment of Venezuelan BsF denominated investments recognized as the result of the Venezuela devaluation.

Claims, benefits and expenses for the three and nine months ended September 30, 2013 were $1.474 billion and $4.406 billion, increases of $60 million and $144 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 and higher incurred losses and commission expense in China, partially offset by lower frequency in the automobile line of business in Brazil and favorable prior year development. The increase in the year also reflects the foreign exchange loss ($15 million, primarily the result of the Venezuela devaluation), the acquisition in Russia, and expense in 2013 related to enhancements to global technology infrastructure, partially offset by the sale of the Argentina workers compensation company.

	Three Months Ended September 30,			**Nine Months Ended September 30,**		
LIBERTY 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	66.0%	65.8%	0.2	66.0%	66.8%	(0.8)
Underwriting expense ratio	37.7	37.1	0.6	38.7	36.4	2.3
Subtotal	103.7	102.9	0.8	104.7	103.2	1.5
Catastrophes[2]	-	-	-	-	-	-
Net incurred losses attributable to prior years[3]	(0.4)	0.4	(0.8)	(0.7)	0.4	(1.1)
Total combined ratio	103.3%	103.3%	-	104.0%	103.6%	0.4

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.
3 Net of earned premium attributable to prior years.

The combined ratio before catastrophes and net incurred losses attributable to prior years for the three and nine months ended September 30, 2013 was 103.7% and 104.7%, respectively, increases of 0.8 points and 1.5 points over the same periods in 2012. The increases in both periods reflect unfavorable commission expense in Venezuela and China due to increased competition and the start-up costs associated with the new operations in Ecuador, the United Kingdom and India. The increase in the year also reflects an increase in expense in 2013 related to enhancements to global technology infrastructure, and the sale of the Argentina workers compensation company with a low expense ratio, partially offset by a decrease in the claims and claim adjustment expense ratio primarily driven by higher average premium and lower claims frequency in the automobile line of business in Brazil.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three and nine months ended September 30, 2013 was 103.3% and 104.0%, respectively, increases of zero points and 0.4 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 driven by Venezuela as a result of favorable claim experience led by the health line of business in both periods. The year was further impacted by unfavorable prior year reserve development in 2012 related to the Argentina workers compensation company that was sold in 2012.

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.

Global Specialty NWP by market segment was as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
LIU	$926	$784	18.1%	$2,970	$2,511	18.3%
LMS	197	192	2.6	558	549	1.6
LMR	90	101	(10.9)	312	278	12.2
Other	14	-	NM	50	-	NM
Total NWP	$1,227	$1,077	13.9%	$3,890	$3,338	16.5%
Foreign exchange effect on growth			(0.5)			-
NWP growth excluding foreign exchange[1]			14.4%			16.5%

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:

$ in Millions	Three Months Ended September 30, 2013	2012	Change	Nine Months Ended September 30, 2013	2012	Change
Syndicate 4472	$415	$348	19.3%	$1,398	$1,188	17.7%
LIU third party	258	207	24.6	805	651	23.7
LMS	197	192	2.6	558	549	1.6
LIU inland marine program	154	135	14.1	442	376	17.6
LMR	90	101	(10.9)	312	278	12.2
LIU first party	72	70	2.9	227	233	(2.6)
LIU other	27	24	12.5	98	63	55.6
Other	14	-	NM	50	-	NM
Total NWP	$1,227	$1,077	13.9%	$3,890	$3,338	16.5%

NM = Not Meaningful

NWP for the three and nine months ended September 30, 2013 was $1.227 billion and $3.890 billion, respectively, increases of $150 million and $552 million over the same periods in 2012. The increases in both periods reflect growth driven by Syndicate 4472 and LIU third party primarily due to new business. LIU third party was also favorable due to rate and reinsurance program changes. 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. The quarter increase is partially offset by a decline in LMR due to decreased participation in a voluntary pool.

Results of Operations – Global Specialty

$ in Millions	Three Months Ended September 30, 2013	2012	Change	Nine Months Ended September 30, 2013	2012	Change
Revenues	$1,350	$1,186	13.8%	$3,811	$3,365	13.3%
PTOI before catastrophes and net incurred losses attributable to prior years	$177	$187	(5.3%)	$526	$525	0.2%
Catastrophes[1]	(33)	(25)	32.0	(92)	(28)	NM
Net incurred losses attributable to prior years[2]	22	85	(74.1)	(27)	44	NM
PTOI	$166	$247	(32.8%)	$407	$541	(24.8%)

1 Catastrophes include all current accident year catastrophe losses for severe storms in the U.S., Cyclone Oswald, Central Europe floods, Alberta floods and Germany hail storms. 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 ($5) million and $21 million for the three and nine months ended September 30, 2013 and $2 million and $15 million for the same periods in 2012.

NM = Not Meaningful

PTOI for the three and nine months ended September 30, 2013 was $166 million and $407 million, respectively, decreases of $81 million and $134 million from the same periods in 2012. The decrease in the quarter was driven by increased current accident year losses in Syndicate 4472 and LIU inland marine, less favorable net incurred losses attributable to prior years (driven by LMS partially offset by Syndicate 4472), higher catastrophe losses and lower net investment income. In addition to the previously mentioned drivers, the year-to-date reflects unfavorable prior year loss development.

Revenues for the three and nine months ended September 30, 2013 were $1.350 billion and $3.811 billion, respectively, increases of $164 million and $446 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 nine months ended September 30, 2013 was $1.270 billion and $3.551 billion, respectively, increases of $183 million and $479 million over the same periods in 2012. The increases reflect the previously mentioned growth in NWP and premium growth in the fourth quarter of 2012.

Net investment income for the three and nine months ended September 30, 2013 was $78 million and $231 million, respectively, decreases of $7 million and $22 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 nine months ended September 30, 2013 were $1.184 billion and $3.381 billion, respectively, increases of $258 million and $591 million over the same periods in 2012. The increases in both periods were primarily driven by business growth, higher catastrophe losses and LMS prior year loss activity.

	Three Months Ended September 30,			**Nine Months Ended September 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	63.0%	61.3%	1.7	61.7%	61.3%	0.4
Underwriting expense ratio	28.4	28.5	(0.1)	29.1	28.9	0.2
Dividend ratio	0.2	0.2	-	0.2	0.2	-
Subtotal	91.6	90.0	1.6	91.0	90.4	0.6
Catastrophes[1]	2.7	2.3	0.4	2.6	0.9	1.7
Net incurred losses attributable to prior years[2]	(1.8)	(7.8)	6.0	0.8	(1.4)	2.2
Total combined ratio	92.5%	84.5%	8.0	94.4%	89.9%	4.5

1 Catastrophes include all current accident year catastrophe losses for severe storms in the U.S., Cyclone Oswald, Central Europe floods, Alberta floods and Germany hail storms. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

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

The Global Specialty combined ratio before catastrophes and net incurred losses attributable to prior years for the three and nine months ended September 30, 2013 was 91.6% and 91.0%, respectively, increases of 1.6 points and 0.6 points over the same periods in 2012. The increases in both periods were driven by higher current accident year losses in Syndicate 4472 and LIU inland marine. LIU inland marine change in fee structure and increased current accident year losses also contributed to the increase. The year was impacted by the unfavorable underwriting expense ratio, driven by an increase to 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 nine months ended September 30, 2013 was 92.5% and 94.4%, respectively, increases of 8.0 points and 4.5 points over the same periods in 2012. The increases in both periods reflect the changes to the combined ratio discussed, as well as higher catastrophe losses. The quarter was also driven by less favorable net incurred losses attributable to prior years (driven by LMS partially offset by Syndicate 4472). Year-to-date was further impacted by unfavorable prior year loss development.

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 September 30,			Nine Months Ended September 30,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Reinsurance, net	($65)	($143)	(54.5%)	($42)	($288)	(85.4%)
Workers compensation[1]	(8)	(11)	(27.3)	44	(11)	NM
Other	2	(1)	NM	1	-	NM
Total NWP	($71)	($155)	(54.2%)	$3	($299)	NM

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

NWP for the three and nine months ended September 30, 2013 was ($71) million and $3 million, respectively, increases of $84 million and $302 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 business. 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 September 30,			Nine Months Ended September 30,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Revenues	$244	$55	NM	$743	$286	159.8%
Pre-tax operating loss before catastrophes, net incurred losses attributable to prior years, Venezuela devaluation, and LP and LLC income	($318)	($304)	4.6%	($738)	($813)	(9.2%)
Catastrophes[1]	(109)	(5)	NM	(76)	99	NM
Net incurred losses attributable to prior years:						
- Asbestos & environmental[2]	(279)	(53)	NM	(283)	(58)	NM
- All other[3]	222	(265)	NM	232	(254)	NM
Venezuela devaluation	-	-	-	(3)	-	NM
Pre-tax operating loss before LP and LLC income	(484)	(627)	(22.8)	(868)	(1,026)	(15.4)
LP and LLC income[4]	88	42	109.5	356	254	40.2
Pre-tax operating loss	($396)	($585)	(32.3%)	($512)	($772)	(33.7%)

1 Catastrophes include all current accident year catastrophe losses for severe storms in the U.S., Cyclone Oswald, Central Europe floods, Alberta floods and Germany hail storms. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.
2 2013 includes $278 million of strengthening of asbestos and environmental related reserves.
3 Net of earned premium attributable to prior years of $100 million and $200 million for the three and nine months ended September 30, 2013 and ($1) million for the same periods in 2012. Net of amortization of deferred gains on retroactive reinsurance of $158 million and $177 million for the three and nine months ended September 30, 2013 and $10 million and $30 million for the same periods in 2012.
4 LP and LLC income is included in net investment income in the accompanying consolidated statements of income.
NM = Not Meaningful

Pre-tax operating loss for the three and nine months ended September 30, 2013 was $396 million and $512 million, respectively, decreases of $189 million and $260 million from the same periods in 2012. The decreases were driven by lower unfavorable prior year incurred loss development (including asbestos and environmental), a decrease in ceded premium related to the homeowners quota share treaty, and favorable annuity reserve development, partially offset by higher benefit expenses primarily due to employee pension benefits.

Revenues for the three and nine months ended September 30, 2013 were $244 million and $743 million, respectively, increases of $189 million and $457 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 nine months ended September 30, 2013 was $69 million and $155 million, respectively, increases of $169 million and $465 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 (loss) income for the three and nine months ended September 30, 2013 was ($30) million and $119 million, respectively, versus ($31) million and $98 million in the same periods in 2012. Both periods primarily reflect higher valuation increases in LP and LLC investments, primarily in the energy sector. 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 nine months ended September 30, 2013 were $85 million and $149 million, respectively, decreases of $30 million and $148 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 and contingent consideration recognized in connection with the prior sale of certain Commercial Insurance policy renewal rights in 2009.

Fee and other revenues for the three and nine months ended September 30, 2013 were $120 million and $320 million, increases of $49 million and $119 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 nine months ended September 30, 2013 were $555 million and $1.106 billion, respectively, increases of $30 million and $345 million over the same periods in 2012. The increases in both periods are driven by 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's growth, partially offset by lower unfavorable prior year incurred loss development (including asbestos and environmental).

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 September 30, 2013 and December 31, 2012:

$ in Millions	**As of September 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	$64,089	81.5 %	$64,094	82.1%
Equity securities, available for sale, at fair value	2,901	3.7	2,495	3.2
LPs and LLCs	4,282	5.4	3,767	4.8
Commercial mortgage loans	1,534	2.0	1,335	1.7
Short-term investments	319	0.4	208	0.3
Other investments	657	0.8	677	0.9
Cash and cash equivalents	4,856	6.2	5,484	7.0
Total invested assets	$78,638	100.0%	$78,060	100.0%

Total invested assets as of September 30, 2013 were $78.638 billion, an increase of $578 million or 0.7% over December 31, 2012. The increase reflects the reinvestment of cash flows from operations and financing activities and the strong public and private equity market performance, partially offset by a decrease in fixed maturity unrealized gains related to higher treasury yields.

Fixed maturities as of September 30, 2013 were $64.089 billion. Activity 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 and financing activities. As of September 30, 2013, included in fixed maturities are commitments to purchase various residential mortgage-backed securities at a cost of $45 million and fair value of $46 million, and various corporate and municipal securities at a cost of $113 million and fair value of $114 million.

Equity securities available for sale as of September 30, 2013 were $2.901 billion ($2.564 billion common stock and $337 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 $406 million or 16.3% over December 31, 2012. Of the $2.564 billion of common stock at September 30, 2013, $370 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 September 30, 2013 were $4.282 billion, an increase of $515 million or 13.7% over December 31, 2012. These investments consist of traditional private equity partnerships of $2.067 billion, natural resources partnerships of $654 million, real estate partnerships of $648 million and other partnerships of $913 million. The increase reflects net improved valuations, new investments and the conversion of a debt instrument to equity, 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 September 30, 2013, the Company had unfunded commitments in traditional private equity partnerships, real estate, natural resources, and other of $1.108 billion, $360 million, $2.996 billion, and $369 million, respectively.

Commercial mortgage loans as of September 30, 2013 were $1.534 billion (net of $19 million of loan loss reserves or 1.2% of the outstanding loan portfolio), an increase of $199 million or 14.9% over December 31, 2012. The increase primarily reflects a $279 million increase in loans, partially offset by $83 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 September 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 4,145 at September 30, 2013. Approximately 92% of the loans are full or partial recourse to borrowers.

Cash and cash equivalents as of September 30, 2013 were $4.856 billion, a decrease of $628 million or 11.5% from December 31, 2012. The decrease was primarily related to the investment of available cash into fixed maturities, equities and LP and LLC investments, a pension contribution and the Venezuela devaluation, partially offset by an increase in securities lending cash collateral and net cash received from financing activities.

Regarding fair value measurements, as of September 30, 2013, excluding separate accounts and other assets, the Company reflected $4.849 billion (7.2%) 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 September 30, 2013 the Company reported $60.955 billion (90.2%) as level 2, consisting primarily of various fixed maturity securities. Finally, the Company reported $1.795 billion (2.6%) as level 3 (unobservable inputs), primarily consisting of international and privately held securities for which a market price is not readily observable.

As of September 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 September 30, 2013 and December 31, 2012:

$ in Millions **September 30, 2013**	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. government and agency securities	$2,987	$189	($23)	$3,153
Residential MBS [1]	8,385	310	(72)	8,623
Commercial MBS	1,742	27	(30)	1,739
Other MBS and ABS [2]	2,262	74	(41)	2,295
U.S. state and municipal	13,841	782	(224)	14,399
Corporate and other	26,629	1,336	(350)	27,615
Foreign government securities	6,133	218	(86)	6,265
Total fixed maturities	61,979	2,936	(826)	64,089
Common stock	2,114	481	(31)	2,564
Preferred stock	387	18	(68)	337
Total equity securities	2,501	499	(99)	2,901
Total securities available for sale	$64,480	$3,435	($925)	$66,990

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 September 30, 2013:

$ in Millions	**As of September 30, 2013**							
Mortgage & Asset-Backed Fixed Maturities by Credit Quality[1]	**AAA**	**AA**	**A**	**BBB**	**BB**	**B or Lower**	**Total**	**% of Total**
SBA loans	$1,885	$-	$-	$-	$-	$-	$1,885	15.0%
GNMA residential mortgage	4,083	5	-	-	-	-	4,088	32.3
FNMA residential mortgage	2,402	-	-	-	-	-	2,402	19.0
FHLMC residential mortgage	1,722	-	-	-	-	-	1,722	13.6
Prime residential mortgage	8	2	4	12	6	174	206	1.6
Alt-A residential mortgage	-	14	-	8	5	123	150	1.2
Sub-prime residential mortgage	26	-	2	1	6	20	55	0.4
Commercial MBS	1,629	50	10	50	-	-	1,739	13.7
Non-mortgage ABS	230	7	51	108	4	10	410	3.2
Total	$11,985	$78	$67	$179	$21	$327	$12,657	100.0%
% of Total	94.7%	0.6%	0.5%	1.4%	0.2%	2.6%	100.0%	

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

Approximately 80% of the Company's mortgage and asset-backed fixed maturity portfolio is explicitly backed by the U.S. government (SBA and GNMA) or by government-sponsored entities (FNMA and FHLMC). Over 94% of the 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 September 30, 2013 and December 31, 2012:

$ in Millions	**As of September 30, 2013**		**As of December 31, 2012**	
Fixed Maturities by Credit Quality[1]	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
AAA	$21,326	33.2%	$22,015	34.3%
AA+, AA, AA-	11,257	17.6	10,993	17.2
A+, A, A-	14,141	22.1	13,913	21.7
BBB+, BBB, BBB-	12,318	19.2	11,865	18.5
Total investment grade	59,042	92.1	58,786	91.7
BB+, BB, BB-	1,514	2.4	1,523	2.4
B+, B, B-	2,828	4.4	2,889	4.5
CCC or lower	705	1.1	896	1.4
Total below-investment grade	5,047	7.9	5,308	8.3
Total fixed maturities	$64,089	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 September 30, 2013, consistent with December 31, 2012. Overall, the average credit quality rating stands at A+ as of September 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 September 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 September 30, 2013**		**As of December 31, 2012**	
Fixed Maturities by Maturity Date	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
One year or less	$3,544	5.5%	$3,337	5.2%
Over one year through five years	18,866	29.4	19,275	30.1
Over five years through ten years	17,069	26.6	15,808	24.7
Over ten years	11,953	18.8	12,677	19.7
MBS and ABS	12,657	19.7	12,997	20.3
Total fixed maturities	$64,089	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 nine months ended September 30, 2013 and 2012:

$ in Millions	**Three Months Ended September 30,**		**Nine Months Ended September 30,**	
Net Investment Income	**2013**	**2012**	**2013**	**2012**
Taxable interest income	$565	$608	$1,711	$1,871
Tax-exempt interest income	108	110	335	338
Dividends	14	15	49	43
LP and LLC income	88	42	356	254
Commercial mortgage loans	23	21	67	60
Other investment loss	(59)	(3)	(111)	(9)
Gross investment income	739	793	2,407	2,557
Investment expenses	(39)	(38)	(116)	(108)
Net investment income	$700	$755	$2,291	$2,449

Net investment income for the three and nine months ended September 30, 2013 was $700 million and $2.291 billion, respectively, decreases of $55 million and $158 million from the same periods in 2012. The decreases reflect a reduction in taxable interest income due to lower investment yields and valuation decreases in other equity method investments primarily related to impairment losses in the natural resources sector, partially offset by 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.

Net Realized Gains (Losses)

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

\$ in Millions **Net Realized Gains (Losses)**	**Sales & Dispositions**	**Impairments**	**Change in Derivatives Value**	**Total**
Three Months Ended September 30, 2013:				
Fixed maturities	$15	($20)	$-	($5)
Common and preferred stock	124	(4)	-	120
Other	(17)	(17)	(1)	(35)
Total	$122	($41)	($1)	$80
Three Months Ended September 30, 2012:				
Fixed maturities	$129	($3)	$-	$126
Common and preferred stock	23	(13)	-	10
Other	7	-	(15)	(8)
Total	$159	($16)	($15)	$128

\$ in Millions **Net Realized Gains (Losses)**	**Sales & Dispositions**	**Impairments**	**Change in Derivatives Value**	**Total**
Nine Months Ended September 30, 2013:				
Fixed maturities	$59	($251)	$-	($192)
Common and preferred stock	185	(8)	-	177
Other	(13)	(18)	(8)	(39)
Total	$231	($277)	($8)	($54)
Nine Months Ended September 30, 2012:				
Fixed maturities	$238	($45)	$-	$193
Common and preferred stock	66	(37)	-	29
Other	142	-	(15)	127
Total	$446	($82)	($15)	$349

$ in Millions	Three Months Ended September 30,		Nine Months Ended September 30,	
Components of Net Realized Gains (Losses)	**2013**	**2012**	**2013**	**2012**
Fixed maturities:				
Gross realized gains	$46	$148	$137	$283
Gross realized losses	(51)	(22)	(329)	(90)
Equities:				
Gross realized gains	146	27	218	78
Gross realized losses	(26)	(17)	(41)	(49)
Other:				
Gross realized gains	15	11	39	164
Gross realized losses	(50)	(19)	(78)	(37)
Total net realized gains (losses)	$80	$128	($54)	$349

Net realized gains (losses) for the three and nine months ended September 30, 2013 were $80 million and ($54) million, respectively, versus $128 million and $349 million in the same periods in 2012. The decreases in net gains in both periods relate to gains recognized from security sales as part of tactical portfolio changes in both 2013 and 2012. Additionally the year was impacted by fixed maturity impairment losses of $223 million recognized as a result of the Venezuela devaluation in February 2013 being deemed other-than-temporary, as well as gains in 2012 that did not recur in 2013. These included gains in the energy sector as well as gains 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 following table summarizes the Company's unrealized losses and fair value by security type and by duration as of September 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	($23)	$1,111	$-	$-
Residential MBS	(70)	2,439	(2)	34
Commercial MBS	(30)	753	-	1
Other MBS and ABS	(41)	1,010	-	11
U.S. state and municipal	(204)	2,539	(20)	88
Corporate and other	(325)	7,321	(25)	197
Foreign government securities	(52)	1,532	(34)	323
Total fixed maturities	(745)	16,705	(81)	654
Common stock	(17)	250	(14)	102
Preferred stock	(1)	19	(67)	234
Total equity securities	(18)	269	(81)	336
Total securities available for sale	($763)	$16,974	($162)	$990

Unrealized losses increased from $239 million as of December 31, 2012 to $925 million as of September 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 $763 million as of September 30, 2013. Unrealized losses 12 months or longer decreased from $169 million as of December 31, 2012 to $162 million as of September 30, 2013. Of the $14 million unrealized losses 12 months or longer on common stock, $6 million relates to securities associated with non-guaranteed unit linked products where the policyholder bears the investment risk. As of September 30, 2013, there were 634 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 nine months ended September 30, 2013, the Company recorded $20 million and $251 million, respectively, of fixed maturity impairment losses. Fixed maturity impairment losses for the nine 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 September 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 September 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 nine months ended September 30, 2013, the Company recorded $4 million and $8 million in impairment losses on equity securities. The Company has concluded that the gross unrealized losses of equity securities as of September 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 September 30, 2013 (including cash and cash equivalents) totaled $78.638 billion.

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

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

$ in Millions	**As of September 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 10/31/2013, $239 million of 5.75% Notes due 3/15/2014 and $104 million of 7.30% Notes due 6/15/2014. 2012 includes $25 million of 7.86% Medium Term Notes due 5/31/2013 and $260 million of 8.00% Notes due 10/31/2013.

Long-term debt:

$ in Millions	As of September 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]	352	620
6.50% Notes, due 2042	750	750
7.697% Surplus notes, due 2097	260	260
Subtotal	5,999	6,010
Unamortized discount	(18)	(20)
Total long-term	$5,981	$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

During the three and nine months ended September 30, 2013, the Company repurchased $164 million and $268 million, respectively, of the 10.75% Junior Subordinated notes due 2088. Pre-tax losses of $96 million and $156 million, respectively, were recorded on these transactions and are included in loss on extinguishment of debt in the accompanying consolidated statements of income.

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.

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 September 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 September 30, 2013, there was no commercial paper outstanding.

Interest Expense

Consolidated interest expense for the three and nine months ended September 30, 2013 was $110 million and $315 million, increases of $6 million and $1 million over the same periods in 2012. The increases reflect the new debt issuances in August 2012 and June 2013, offset by the completion of the tender offers, the repurchases of the 10.75% Junior Subordinated notes due 2088, and the retirement of the 7.25% Notes due 2012. 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 September 30, 2013, the Company, through its downstream subsidiary LMGI, had $5.734 billion of debt outstanding, excluding discount. This amount includes a short-term loan of $130 million from LMIC with a maturity date of November 27, 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	$183
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 nine months ended September 30, 2013. Available dividend capacity as of September 30, 2013 is calculated as 2013 dividend capacity less dividends paid for the preceding 12 months. Dividends paid October 1, 2012 through September 30, 2013 for LMIC, LMFIC and EICOW were $200 million, $7 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 nine months ended September 30, 2013, LCS recorded $118 million and $327 million in pre-tax income.

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

Statutory Surplus

Statutory surplus as regards policyholders for the combined operations of LMIC and its U.S. affiliates, including international branches, was $16.990 billion and $16.521 billion at September 30, 2013 and December 31, 2012, respectively. The increase in surplus primarily reflects affiliated unrealized gains of $334 million, net income of $161 million (the sum of earnings from the Company’s 58 domestic property-casualty insurance companies and dividends from subsidiaries), and unaffiliated unrealized gains of $17 million, partially offset by other changes in surplus of ($43) million. Other changes in surplus is primarily driven by goodwill amortization expense, dividends to stockholders, non-admitted assets, and foreign currency translation, partially offset by a decrease in non-admitted goodwill and an increase in net deferred tax assets.

CRITICAL ACCOUNTING POLICIES

Critical Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The Company's principal estimates include (1) unpaid claims and claim adjustment expense reserves, including asbestos and environmental liability reserves and loss sensitive premium attributable to prior years; (2) reinsurance recoverables and associated uncollectible allowance; (3) fair value determination and other-than-temporary impairments of the investment portfolio; (4) 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 third 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. Adoption of ASU 2013-08 will not result in a material impact on the Company.

Unpaid Claims and Claim Adjustment Expenses

Reserves for property-casualty unpaid claims and claim adjustment expenses were $52.273 billion and $51.885 billion as of September 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 increased $165 million from $1.215 billion as of December 31, 2012 to $1.380 billion as of September 30, 2013.

In the third quarter of 2013, 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 $278 million including: a $115 million final contingent payment triggered on a large settlement; $101 million of other asbestos reserves, primarily associated with increased defense costs; and $62 million of pollution reserves.

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 $12.255 billion and $13.232 billion at September 30, 2013 and December 31, 2012, respectively, net of allowance for doubtful accounts of $181 million and $275 million, respectively. The decrease in reinsurance recoverables is primarily due to the commutations of two excess of loss retroactive reinsurance agreements. Included in these balances are $693 million and $905 million of paid recoverables and $11.743 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 7.5% annually. These contracts resulted in deferred gains (including experience related profit accruals of $75 million) that are amortized into income using the effective interest method over the estimated settlement periods. As of September 30, 2013, and December 31, 2012, deferred gains related to these reinsurance arrangements were $89 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 nine months ended September 30, 2013 was $21 million and $63 million, respectively, as compared to $21 million and $62 million for the three and nine months ended September 30, 2012, respectively. Deferred gain amortization was $159 million and $178 million for the three and nine months ended September 30, 2013, respectively, as compared to $10 million and $30 million for the three and nine months ended September 30, 2012, respectively. Reinsurance recoverables related to these transactions, including experience related profit accruals, were $491 million and $1.165 billion as of September 30, 2013, and December 31, 2012, respectively. Effective September 30, 2013, the Company commuted two workers compensation excess of loss retroactive reinsurance agreements. The commutations, which represent the complete and final settlement and discharge of all the present and future obligations between the parties arising out of the agreements, resulted in a gain to the Company of $108 million, net of tax.

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 September 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 September 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 September 30, 2013 and December 31, 2012 was 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 $268 million and $282 million as of September 30, 2013 and December 31, 2012, respectively, and the Company's maximum exposure to loss was $326 million and $340 million as of September 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 $3.034 billion and $2.732 billion as of September 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 $4.830 billion and $4.850 billion as of September 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 $1.528 billion and $1.102 billion as of September 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
Reductions based on tax positions related to current year	(2)
Additions for tax positions of prior years	41
Reductions for tax positions of prior years	(93)
Balance at September 30, 2013	$302

Included in the tabular roll forward of unrecognized tax benefits is interest and penalties in the amount of $108 million and $102 million as of September 30, 2013 and December 31, 2012, respectively.

Included in the balance at September 30, 2013, is $183 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 September 30, 2013 and 2012, the Company recognized zero and ($4) million of interest and penalties in each period. For the nine months ended September 30, 2013 and 2012, the Company recognized $5 million and $7 million of interest and penalties, respectively. The Company had $111 million and $106 million of interest and penalties accrued as of September 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.