Liberty Mutual Holding Company Inc.

Third Quarter 2013

Consolidated Financial Statements

Liberty Mutual Holding Company Inc.

Consolidated Statements of Income

(dollars in millions)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	**2012**	**2013**	**2012**
Revenues				
Premiums earned	$ 8,914	$ 8,147	$ 25,837	$ 23,776
Net investment income	700	755	2,291	2,449
Fee and other revenues	326	248	915	742
Net realized gains (losses)	80	128	(54)	349
Total revenues	10,020	9,278	28,989	27,316
Claims, Benefits and Expenses				
Benefits, claims and claim adjustment expenses	6,310	5,859	18,259	17,576
Insurance operating costs and expenses	1,608	1,550	4,812	4,509
Amortization of deferred policy acquisition costs	1,224	1,065	3,591	3,155
Interest expense	110	104	315	314
Interest credited to policyholders	66	61	194	186
Total claims, benefits and expenses	9,318	8,639	27,171	25,740
Loss on extinguishment of debt	(96)	-	(156)	(163)
Realignment benefit (expense)	11	(42)	8	(42)
Income before income tax expense and non-controlling interest	617	597	1,670	1,371
Income tax expense	138	132	434	315
Consolidated net income	479	465	1,236	1,056
Less: Net loss attributable to non-controlling interest	(2)	-	(11)	(7)
Net income attributable to Liberty Mutual Holding Company Inc.	$ 481	$ 465	$ 1,247	$ 1,063

Net Realized Gains (Losses)				
Other-than-temporary impairment losses:	**2013**	**2012**	**2013**	**2012**
Total other-than-temporary impairment losses	$ (41)	$ (15)	$ (277)	$ (77)
Change in portion of loss recognized in other comprehensive income	-	(1)	-	(5)
Other-than-temporary impairment losses	(41)	(16)	(277)	(82)
Other net realized gains	121	144	223	431
Net realized gains (losses)	$ 80	$ 128	$ (54)	$ 349

See accompanying notes to the unaudited consolidated financial statements.

Liberty Mutual Holding Company Inc.

Consolidated Statements of Comprehensive Income

(dollars in millions)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	**2012**	**2013**	**2012**
Consolidated net income	$ 479	$ 465	$ 1,236	$ 1,056
Other comprehensive income (loss), net of taxes:				
Unrealized (losses) gains on securities	(87)	610	(1,571)	1,072
Reclassification adjustment for gains and losses included in consolidated net income	(70)	(88)	15	(146)
Foreign currency translation and other adjustments	193	40	135	(9)
Other comprehensive income (loss), net of taxes	36	562	(1,421)	917
Comprehensive income (loss)	$ 515	$ 1,027	$ (185)	$ 1,973

See accompanying notes to the unaudited consolidated financial statements.

Liberty Mutual Holding Company Inc.

Consolidated Balance Sheets

(dollars in millions)

(Unaudited)

	September 30, 2013	December 31, 2012
Assets:		
Investments		
Fixed maturities, available for sale, at fair value (amortized cost of $61,979 and $59,366)	$ 64,089	$ 64,094
Equity securities, available for sale, at fair value (cost of $2,501 and $2,213)	2,901	2,495
Short-term investments	319	208
Mortgage loans	1,534	1,335
Other investments	4,939	4,444
Total investments	73,782	72,576
Cash and cash equivalents	4,856	5,484
Premium and other receivables	10,489	9,479
Reinsurance recoverables	12,255	13,232
Deferred income taxes	1,528	1,102
Deferred acquisition costs	3,034	2,732
Goodwill	4,830	4,850
Prepaid reinsurance premiums	1,623	1,475
Separate account assets	105	352
Other assets	9,489	8,778
Total assets	$ 121,991	$ 120,060
Liabilities:		
Unpaid claims and claim adjustment expenses and future policy benefits:		
Property and casualty	$ 52,273	$ 51,885
Life	8,135	7,758
Other policyholder funds and benefits payable	4,978	4,564
Unearned premiums	17,584	16,287
Funds held under reinsurance treaties	695	1,287
Current maturities of long-term debt	604	286
Long-term debt	5,981	5,990
Separate account liabilities	105	352
Other liabilities	13,296	13,126
Total liabilities	103,651	101,535
Equity:		
Unassigned equity	17,857	16,610
Accumulated other comprehensive income	291	1,707
Total policyholders' equity	18,148	18,317
Noncontrolling interest	192	208
Total equity	18,340	18,525
Total liabilities and equity	$ 121,991	$ 120,060

See accompanying notes to the unaudited consolidated financial statements.

Liberty Mutual Holding Company Inc.

Consolidated Statements of Changes in Total Equity

(dollars in millions)

(Unaudited)

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Balance at beginning of the year	$ 18,525	$ 17,599
Comprehensive income:		
Consolidated net income	1,236	1,056
Other comprehensive (loss) income, net of taxes	(1,421)	917
Total comprehensive (loss) income	(185)	1,973
Capital contributions	-	52
Balance at end of the period	$ 18,340	$ 19,624

See accompanying notes to the unaudited consolidated financial statements.

Liberty Mutual Holding Company Inc.

Consolidated Statements of Cash Flows

(dollars in millions)

(Unaudited)

	Nine Months Ended September 30, 2013	2012
Cash flows from operating activities:		
Consolidated net income	$ 1,236	$ 1,056
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation and amortization	542	498
Realized losses (gains)	54	(349)
Undistributed private equity investment gains	(308)	(225)
Premium, other receivables, and reinsurance recoverables	(1,030)	(878)
Deferred acquisition costs	(225)	(271)
Liabilities for insurance reserves	2,722	2,434
Taxes payable, net of deferred	334	267
Other, net	(176)	(288)
Total adjustments	1,913	1,188
Net cash provided by operating activities	3,149	2,244
Cash flows from investing activities:		
Purchases of investments	(15,374)	(15,280)
Sales and maturities of investments	11,558	13,523
Property and equipment purchased, net	(758)	(816)
Cash paid for acquisitions, net of cash on hand	(2)	(6)
Other investing activities	104	(167)
Net cash used in investing activities	(4,472)	(2,746)
Cash flows from financing activities:		
Net activity in policyholder accounts	253	171
Debt financing, net	153	616
Net security lending activity and other financing actitivites	417	300
Net cash provided by financing activities	823	1,087
Effect of exchange rate changes on cash	(128)	16
Net (decrease) increase in cash and cash equivalents	(628)	601
Cash and cash equivalents, beginning of period	5,484	5,972
Cash and cash equivalents, end of period	$ 4,856	$ 6,573

See accompanying notes to the unaudited consolidated financial statements.

(dollars in millions)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation
The accompanying consolidated financial statements include the accounts of Liberty Mutual Holding Company Inc., entities over which the Company exercises control including majority and wholly owned subsidiaries, and variable interest entities when the Company is deemed the primary beneficiary (collectively "LMHC" or the "Company"). The minority ownership of consolidated affiliates is represented in equity as noncontrolling interest. All material intercompany transactions and balances have been eliminated. Certain reclassifications have been made to the accompanying 2012 consolidated financial statements to conform with the 2013 presentation.

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

Adoption of New Accounting Standards
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, and there will be no material impact on the Company.

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

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

	September 30, 2013	December 31, 2012
Unrealized gains on securities	$1,410	$2,963
Foreign currency translation & other adjustments	84	136
Accumulated pension liability adjustments	(1,203)	(1,392)
Accumulated other comprehensive income	$291	$1,707

(2) ACQUISITIONS, DISPOSITIONS AND JOINT VENTURES

Effective March 28, 2012, the Company completed the acquisition of the Russian insurance company KIT Finance Insurance for $39. The Company believes the acquisition provides the International strategic business unit ("SBU") the opportunity for continued diversification in the European market.

Effective June 22, 2012, the Company completed the sale of its wholly-owned subsidiary Liberty ART S.A. under the International SBU and received proceeds of $39 and realized a gain of $25.

During the second quarter of 2012, Liberty Videocon General Insurance Company Ltd. ("Liberty Videocon"), a joint venture between the Company and Videocon Industries Ltd. ("Videocon Group"), received the necessary license from India's insurance regulatory authority to commence its operations. As of December 31, 2012, Videocon Group contributed $54 to Liberty Videocon, as reported on the consolidated statements of changes in total equity. There have been no additional capital contributions during 2013. The Company consolidates the financial position and results of operations of Liberty Videocon.

(dollars in millions)

Effective August 28, 2012 and August 30, 2012, the Company completed the acquisitions of Panamericana de Seguros del Ecuador S.A. and Cervantes S.A. Compania de Seguros y Reaseguros for $16 and $13, respectively. The Company believes the acquisitions provide the International SBU the opportunity for continued diversification in the Latin American market. Effective June 25, 2013, Cervantes S.A. Compania de Seguros y Reaseguros merged into Panamericana de Seguros del Ecuador S.A. and assumed the new name of Liberty Seguros S.A.

(3) INVESTMENTS

The amortized cost, gross unrealized gains and losses and fair values of available for sale investments as of September 30, 2013 and December 31, 2012, are as follows:

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”)

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

(dollars in millions)

Of the $2,564 and $2,097 of common stock as of September 30, 2013 and December 31, 2012, respectively, $370 and $315, respectively, relates to securities associated with non-guaranteed unit-linked products where the policyholder bears the investment risk.

The fair value of fixed maturities as of September 30, 2013 and December 31, 2012, by contractual maturity are as follows:

Due to mature:	As of September 30, 2013	As of December 31, 2012
One year or less	$3,544	$3,337
Over one year through five years	18,866	19,275
Over five years through ten years	17,069	15,808
Over ten years	11,953	12,677
MBS and ABS	12,657	12,997
Total fixed maturities	$64,089	$64,094

The following table summarizes the Company's gross realized gains and losses by asset type for the three and nine months ended September 30, 2013 and 2012, respectively:

	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

The following table summarizes the Company's unrealized losses and fair value by security type and by duration that individual securities have been in an unrealized loss position as of September 30, 2013, that are not deemed to be other-than-temporarily impaired:

	Less Than 12 Months		12 Months or Longer	
	Unrealized Losses	Fair Value of Investments with Unrealized Losses	Unrealized Losses	Fair Value of Investments with Unrealized Losses
U.S. government and agency securities	$(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 as of December 31, 2012 to $925 as of September 30, 2013 primarily related to an increase in treasury yields. Unrealized losses less than 12 months increased from $70 at December 31, 2012 to $763 as of September 30, 2013. Unrealized losses 12 months or longer decreased from $169 as of December 31, 2012 to $162 as of September 30, 2013. Of the $14 unrealized losses 12 months or longer on common stock, $6 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 and $251, 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 and $8, respectively, 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.

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 (losses). The non-credit component, the residual difference between the credit impairment component and the fair value, is recognized in other comprehensive income. The factors considered in making an evaluation for credit versus non-credit other-than-temporary impairment include the following: (a) failure of the issuer of the security to make scheduled interest or principal payments (including the payment structure of the 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 and $282 as of September 30, 2013 and December 31, 2012, respectively, and the Company's maximum exposure to loss was $326 and $340 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.

(4) REINSURANCE

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

The Company reported reinsurance recoverables of $12,255 and $13,232 at September 30, 2013 and December 31, 2012, respectively, net of allowance for doubtful accounts of $181 and $275, 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 and $905 of paid recoverables and $11,743 and $12,602 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 accompanying consolidated statements of income.

The Company is party to retroactive reinsurance arrangements where a significant portion of the consideration was retained on a "funds held" basis and interest is credited on the balance at a weighted average rate of approximately 7.5% annually. These contracts resulted in deferred gains (including experience related profit accruals of $75) 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 and $296, 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 and $63, respectively, as compared to $21 and $62 for the three and nine months ended September 30, 2012, respectively. Deferred gain amortization was $159 and $178 for the three and nine months ended September 30, 2013, respectively, as compared to $10 and $30 for the three and nine months ended September 30, 2012, respectively. Reinsurance recoverables related to these transactions, including experience related profit accruals, were $491 and $1,165 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, net of tax.

(dollars in millions)

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 of reinsurance coverage for the Company and its affiliates for a U.S. hurricane or earthquake event. The reinsurance agreements are collateralized. Such collateral is provided by Mystic III using proceeds from the issuance of certain catastrophe bonds. The reinsurance agreements provide coverage based on actual reported losses by the Company and its affiliates. The Company has not recorded any recoveries under this program. Mystic III does not have any other reinsurance in force.

(5) DEBT OUTSTANDING

Debt outstanding as of September 30, 2013 and December 31, 2012 includes the following:

Current maturities of long-term debt:

	September 30, 2013	December 31, 2012
Current maturities of long-term debt	$604	$286

Long-term debt:

	September 30, 2013	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
	5,999	6,010
Unamortized discount	(18)	(20)
Total long-term debt	$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.

Debt Transactions and In-Force Credit Facilities

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

On June 18, 2013, Liberty Mutual Group Inc. ("LMGI") issued $600 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 $1,000 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 $1,000 three-year repurchase agreements dated March 26, 2010.

On May 4, 2012 and August 17, 2012, LMGI issued $500 and $250 of Senior Notes due 2022 (the "2022 Notes"), respectively. Also, on May 4, 2012 and August 17, 2012, LMGI issued $500 and $250 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, 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, 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 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 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 in connection with such tender offers, including approximately $17 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 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 of the 10.75% Series C Junior Subordinated Notes due 2088, $260 of the 7.697% Surplus Notes due 2097, $239 of the 5.75% Senior Notes due 2014 and $104 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 at a rate of 3.91% with a maturity date of March 22, 2032. On March 23, 2012 and April 2, 2012, LMIC borrowed $127 at a rate of 4.24% with a maturity date of March 23, 2032 and $23 at a rate of 4.25% with a maturity date of April 2, 2032, respectively. 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 with respect to LMGI's $300 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.

As of September 30, 2013, LMGI had a five-year $750 unsecured revolving credit facility which terminates on October 17, 2016. To date, no funds have been borrowed under the facility.

The Company places commercial paper through a program issued by LMGI and guaranteed by LMIC. Effective October 17, 2011, the $400 commercial paper program was increased to $750 and is backed by the five-year $750 unsecured revolving credit facility. As of September 30, 2013, there was no commercial paper outstanding.

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

(dollars in millions)

(6) ASBESTOS AND ENVIRONMENTAL

The Company's asbestos and environmental reserves for unpaid claims and claim adjustment expenses, net of reinsurance and including uncollectible reinsurance, were $1,380 and $1,215 as of September 30, 2013 and December 31, 2012, respectively.

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

(7) INCOME TAXES

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

The Company's effective tax rate differs from the Federal statutory rate of 35% principally due to tax-exempt investment income, general business credits, and foreign activities. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Balance as of 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 as of September 30, 2013	$302

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

Included in the balance as of September 30, 2013 is $183 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) of interest and penalties, respectively. For the nine months ended September 30, 2013 and 2012, the Company recognized $5 and $7 of interest and penalties, respectively. The Company had approximately $111 and $106 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 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.

(dollars in millions)

(8) BENEFIT PLANS

The net benefit costs for the three months ended September 30, 2013 and 2012, include the following components:

Three months ended September 30,	Pension Benefits		Supplemental Pension Benefits *		Postretirement Benefits	
	2013	2012	2013	2012	2013	2012
Components of net periodic benefit costs:						
Service costs	$42	$30	$2	$2	$6	$5
Interest costs	72	73	4	5	10	11
Expected return on plan assets	(87)	(73)	-	-	-	-
Settlement charge	-	(2)	-	-	-	-
Amortization of unrecognized:						
Net loss (gain)	39	10	5	3	1	(2)
Prior service cost	-	(1)	-	-	(2)	(1)
Net periodic benefit costs	$66	$37	$11	$10	$15	$13

* The Company sponsors non-qualified supplemental pension plans to restore to selected highly compensated employees the pension benefits to which they would be entitled under the Company's U.S. tax qualified, defined benefit pension plan had it not been for limits imposed by the Internal Revenue Code. The supplemental plans are unfunded.

The net benefit costs for the nine months ended September 30, 2013 and 2012, include the following components:

Nine months ended September 30,	Pension Benefits		Supplemental Pension Benefits *		Postretirement Benefits	
	2013	2012	2013	2012	2013	2012
Components of net periodic benefit costs:						
Service costs	$128	$90	$5	$5	$20	$14
Interest costs	216	220	14	16	31	32
Expected return on plan assets	(261)	(217)	-	-	-	-
Settlement charge	-	(2)	-	-	-	-
Amortization of unrecognized:						
Net loss (gain)	116	28	15	9	4	(5)
Prior service cost	(1)	(2)	(1)	-	(3)	(2)
Net periodic benefit costs	$198	$117	$33	$30	$52	$39

* The Company sponsors non-qualified supplemental pension plans to restore to selected highly compensated employees the pension benefits to which they would be entitled under the Company's U.S. tax qualified, defined benefit pension plan had it not been for limits imposed by the Internal Revenue Code. The supplemental plans are unfunded.

The Company has contributed $603 to the qualified plans as of September 30, 2013 and expects to additionally contribute approximately $16.

(9) FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

- Level 1 — Valuations based on unadjusted quoted market prices in active markets for identical assets or liabilities that the Company has the ability to access.

- Level 2 — Valuations based on observable inputs (other than Level 1 prices), such as quoted prices for similar assets or liabilities at the measurement date, quoted prices in markets that are not active, or other inputs that are observable, either directly or indirectly.

- Level 3 — Valuations based on inputs that are unobservable and significant to the overall fair value measurement and involve management judgment. The unobservable inputs reflect the Company's estimates of the assumptions that market participants would use in valuing the assets and liabilities.

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

The Company is responsible for the determination of fair value and the supporting assumptions and methodologies. The Company gains assurance on the overall reasonableness and consistent application of valuation methodologies and inputs and compliance with accounting standards through the execution of various processes and controls designed to ensure that the Company's assets and liabilities are appropriately valued. For fair values received from third parties or internally estimated, the Company's processes are designed to determine that the valuation methodologies and inputs are appropriate and consistently applied, the assumptions are reasonable and consistent with the objective of determining fair value, and the fair values are accurately recorded. For example, on a continuing basis, the Company assesses the reasonableness of individual fair values that have stale security prices or that exceed certain thresholds as compared to previous fair values received from valuation service providers or brokers or derived from internal models. The Company performs procedures to understand and assess the methodologies, processes and controls of valuation service providers. In addition, the Company may validate the reasonableness of fair values by comparing information obtained from valuation service providers or brokers to other third party valuation sources for selected securities.

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

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

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

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

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

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

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

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

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

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

Separate account assets
Separate account assets, which primarily consist of other limited partnerships and equity securities, are measured based on the methodologies discussed above. The activity in separate account assets is offset by an equal amount for separate account liabilities, which results in a net zero impact for the Company. Separate account assets within Level 3 include other limited partnership interests. Other limited partnership interests are valued giving consideration to the value of the underlying holdings of the partnerships.

(dollars in millions)

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

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

Other Liabilities
Other liabilities within Level 2 represent the Company's derivative liabilities which can be exchange-traded or traded over-the-counter ("OTC"). The Company generally values exchange-traded derivatives such as futures and options using quoted prices in active markets for identical derivatives at the balance sheet date.

OTC derivatives are valued using market transactions and other market evidence whenever possible, including market-based inputs to models, model calibration to market clearing transactions, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. When models are used, the selection of a particular model to value an OTC derivative depends on the contractual terms of, and specific risks inherent in the instrument, as well as the availability of pricing information in the market. The Company generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices and rates, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. For OTC derivatives that trade in liquid markets, such as generic forwards, swaps and options, model inputs can generally be corroborated by observable market data by correlation or other means, and model selection does not involve significant management judgment.

The following tables summarize the Company's assets and liabilities that are measured at fair value on a recurring basis as of September 30, 2013 and December 31, 2012:

	As of September 30, 2013			
Assets, at Fair Value	**Level 1**	**Level 2**	**Level 3**	**Total**
U.S. government and agency securities	$2,329	$811	$13	$3,153
Residential MBS	-	8,469	154	8,623
Commercial MBS	-	1,739	-	1,739
Other MBS and ABS	-	2,259	36	2,295
U.S. state and municipal	-	14,367	32	14,399
Corporate and other	-	27,127	488	27,615
Foreign government securities	-	5,382	883	6,265
Total fixed maturities, available for sale	2,329	60,154	1,606	64,089
Common stock	2,520	-	44	2,564
Preferred stock	-	335	2	337
Total equity securities, available for sale	2,520	335	46	2,901
Short-term investments	-	313	6	319
Other investments	-	153	137	290
Separate account assets	31	-	74	105
Other assets	7	31	22	60
Total assets	$4,887	$60,986	$1,891	$67,764
Liabilities, at Fair Value				
Life insurance obligations	$ -	$ -	$(158)	$(158)
Other liabilities	-	(36)	-	(36)
Total liabilities	$ -	$(36)	$(158)	$(194)

(dollars in millions)

	As of December 31, 2012			
Assets, at Fair Value	**Level 1**	**Level 2**	**Level 3**	**Total**
U.S. government and agency securities	$2,644	$874	$10	$3,528
Residential MBS	-	8,740	45	8,785
Commercial MBS	-	1,726	-	1,726
Other MBS and ABS	-	2,444	42	2,486
U.S. state and municipal	-	14,528	38	14,566
Corporate and other	-	26,262	673	26,935
Foreign government securities	-	5,261	807	6,068
Total fixed maturities, available for sale	2,644	59,835	1,615	64,094
Common stock	2,054	-	43	2,097
Preferred stock	-	381	17	398
Total equity securities, available for sale	2,054	381	60	2,495
Short-term investments	-	203	5	208
Other investments	-	151	131	282
Separate account assets	287	-	65	352
Other assets	10	30	31	71
Total assets	$4,995	$60,600	$1,907	$67,502
Liabilities, at Fair Value				
Life insurance obligations	$ -	$ -	$(206)	$(206)
Other liabilities	-	(28)	-	(28)
Total liabilities	$ -	$(28)	$(206)	$(234)

The Company did not have significant transfers between Levels 1 and 2 for the nine months ended September 30, 2013.

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

	Balance January 1, 2013	**Net Realized Gains (Losses)**	**Net Unrealized Gains (Losses)**	**Purchases**	**Settlements**	**Sales and Maturities**	**Transfer In to Level 3**	**Transfer Out of Level 3**	**Balance September 30, 2013**
U.S. government and agency securities	$10	$ -	$(1)	$4	$ -	$ -	$ -	$ -	$13
Residential MBS	45	-	(4)	697	-	(1)	1	(584)	154
Commercial MBS	-	-	-	41	-	(8)	-	(33)	-
Other MBS and ABS	42	-	1	35	-	(1)	-	(41)	36
U.S. state and municipal	38	-	(2)	-	-	(3)	6	(7)	32
Corporate and other	673	5	(33)	299	-	(384)	35	(107)	488
Foreign government securities	807	(182)	(29)	301	-	(14)	-	-	883
Total fixed maturities	1,615	(177)	(68)	1,377	-	(411)	42	(772)	1,606
Common stock	43	5	(1)	3	-	(7)	1	-	44
Preferred stock	17	2	(1)	-	-	(22)	6	-	2
Total equity securities	60	7	(2)	3	-	(29)	7	-	46
Short-term investments	5	-	(5)	15	-	-	-	(9)	6
Other investments	131	(3)	(27)	46	-	(10)	-	-	137
Separate account assets	65	1	-	9	-	-	-	(1)	74
Other assets	31	(7)	-	1	(3)	-	-	-	22
Total assets	$1,907	$(179)	$(102)	$1,451	$(3)	$(450)	$49	$(782)	$1,891
Liabilities, at Fair Value									
Life insurance obligations	$(206)	$30	$ -	$ -	$18	$ -	$ -	$ -	$(158)
Total liabilities	$(206)	$30	$ -	$ -	$18	$ -	$ -	$ -	$(158)

(dollars in millions)

	Balance January 1, 2012	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Purchases	Settlements	Sales and Maturities	Transfer In to Level 3	Transfer Out of Level 3	Balance December 31, 2012
U.S. government and agency securities	$16	$ -	$ -	$ -	$ -	$(3)	$ -	$(3)	$10
Residential MBS	64	-	-	109	-	(27)	1	(102)	45
Commercial MBS	5	-	1	51	-	-	-	(57)	-
Other MBS and ABS	12	-	-	64	-	(3)	3	(34)	42
U.S. state and municipal	19	-	2	10	-	(3)	17	(7)	38
Corporate and other	656	(3)	22	124	-	(101)	23	(48)	673
Foreign government securities	260	-	31	235	-	(27)	473	(165)	807
Total fixed maturities	1,032	(3)	56	593	-	(164)	517	(416)	1,615
Common stock	26	2	-	44	-	(29)	-	-	43
Preferred stock	15	-	1	2	-	-	-	(1)	17
Total equity securities	41	2	1	46	-	(29)	-	(1)	60
Short-term investments	1	-	-	5	-	(1)	2	(2)	5
Other investments	129	23	(5)	35	-	(51)	-	-	131
Separate account assets	174	(2)	-	1	-	(108)	-	-	65
Other assets	30	1	-	-	-	-	-	-	31
Total assets	$1,407	$21	$52	$680	$ -	$(353)	$519	$(419)	$1,907
Liabilities, at Fair Value									
Life insurance obligations	$(162)	$(64)	$ -	$ -	$20	$ -	$ -	$ -	$(206)
Total liabilities	$(162)	$(64)	$ -	$ -	$20	$ -	$ -	$ -	$(206)

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

There were no material unrealized gains (losses) for the period included in earnings attributable to the fair value relating to assets and liabilities classified as Level 3 that are still held as of September 30, 2013.

For the nine months ended September 30, 2013, there were impairments of $118 recognized for items measured at fair value on a nonrecurring basis.

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

(10) COMMITMENTS AND CONTINGENT LIABILITIES

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

The Company has been in coverage litigation with Kentile Floors, Inc., a former manufacturer of floor tile products, some of which contained asbestos, since 2008. In November 1992, Kentile filed a voluntary petition for bankruptcy relief under Chapter 11 (Reorganization) of the Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of New York, and Metex Manufacturing Corporation ("Metex") emerged from the Chapter 11 Bankruptcy proceeding as the "Reorganized Debtor." On November 9, 2012, Metex filed for bankruptcy protection under Chapter 11 in the U.S. Bankruptcy Court for the Southern District of New York, staying all coverage litigation with LMIC as well as all other insurance carriers.

Prior to the most recent bankruptcy filing, Metex reached agreement with each of Kentile's insurance carriers. The bankruptcy court will need to approve the Settlement Agreements before they can become effective. Management believes that a Plan of Reorganization may be agreed in the bankruptcy court within the next year, under which the insurance settlements would be confirmed, although the process could take longer. In the opinion of management, outside of the current bankruptcy process, the outcome of these pending matters would be difficult to predict and an adverse outcome could have a material adverse effect on the Company's business, financial condition, and results of operations.

As of September 30, 2013, the Company had unfunded commitments in traditional private equity partnerships, real estate, natural resources, and other of $1,108, $360, $2,996, and $369, respectively. As of September 30, 2013, the Company had commitments to purchase various residential mortgage-backed securities at a cost and fair value of $45 and $46, respectively, and various corporate and municipal securities at a cost and fair value of $113 and $114, respectively.

(11) SUBSEQUENT EVENTS

Management has assessed material subsequent events through October 30, 2013, the date the financial statements were available to be issued.

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