



000060 - Liberty Mutual Insurance Companies

Report Revision Date: 05/28/2013

Rating and Commentary ¹	Financial ²	General Information ³
Best's Credit Rating: N/A Rating Rationale: N/A Report Commentary: 05/28/2013	Time Period: 1st Quarter - 2013 Last Updated: 08/13/2013 Status: Quality Cross Checked	Corporate Structure: 04/13/2009 States Licensed: N/A Officers and Directors: N/A
 Best's Credit Rating Methodology	Disclaimer	 Best's Rating Guide

Additional Online Resources

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Company Overview	AMB Country Risk Reports - United States

¹The Rating and Commentary date outlines the most recent updates to the Company's Rating, Rationale, and Report Commentary for key rating and business changes. Report commentary may include significant changes to Business Review, Financial Performance/Earnings, Capitalization, Investment/Liquidity, or Reinsurance sections of the report.

²The Financial date reflects the current status of the financial tables found within the body of the Report, including whether the data was loaded as received or had been run through our quality control cross-check process.

³The General Information date covers key areas that may have changed such as corporate structure, states licensed or officers and directors.

Associated Parent: [Liberty Mutual Holding Company Inc.](#)

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AMB #: 000060

Associated Parent: [051114](#)

NAIC #: N/A

FEIN #: N/A

Report Revision Date: 05/28/2013

Rating Rationale

Rating Rationale: The ratings apply to Liberty Mutual Insurance Companies' pool members (Liberty Pool), led by Liberty Mutual Insurance Company, and reinsured domestic affiliates. The ratings are based on the consolidated operating performance and financial condition of these domestic companies, collectively referred to as Liberty Mutual.

The ratings reflect Liberty Mutual's solid capitalization, historically favorable operating performance, dominant market profile and strong brand-name recognition, as the group ranked as the fourth-largest property casualty insurer in the United States at year-end 2012, based on net premiums written. The ratings further acknowledge the group's sustainable competitive advantages of its multiple distribution channels, active risk management of its catastrophe exposures, in-house expertise in alternative investments, and solid product and geographic diversification. Furthermore, Liberty Mutual's enterprise risk management program has served as a competitive advantage in navigating through the financial, economic and catastrophic events of the past five years. Management's strategic objectives remain focused on improving Liberty Mutual's financial performance through product, geographic and distribution channel diversification, while maintaining a sustainable competitive advantage in its core business operations. As part of this strategy, management remains focused on reducing business risk, diversifying earnings and improving operating leverage. In addition, Liberty Mutual's extensive unbundled service capabilities, risk management services and strategic alliances with managed care networks provide a significant competitive advantage and a superior market profile. Lastly, the ratings also consider the financial flexibility provided by the ultimate parent, Liberty Mutual Holding Company Inc., which maintains financial leverage that is in line with its current ratings, as well as additional liquidity through its access to capital markets and lines of credit.

The positive rating factors are somewhat offset by the group's relatively high underwriting leverage measures and the deterioration in its operating results over the past several years, largely driven by weakened underwriting results, lower investment gains and substantial catastrophe losses in years 2010 through 2012. While Liberty Mutual's capitalization was strained in 2008 and early 2009 following deteriorating operating results, unrealized capital losses and the capital outlay for the purchase of Safeco Corporation, policyholders' surplus and capitalization have improved following the recovery of the financial markets and currently support its ratings. Furthermore, while Liberty Mutual has reported favorable prior year loss reserve development in most recent calendar years, modestly unfavorable development was reported in 2011 and 2012, largely relating to asbestos claims in 2011 and workers' compensation and other liability occurrence claims in 2012, which influenced underwriting results to some extent. However, barring substantial catastrophe losses, the group's underwriting and overall operating performance should improve in the near term reflecting more stringent underwriting and increased pricing in recent quarters. Despite some concerns, the outlooks reflect the group's solid risk-adjusted capitalization, historically profitable operating results, experienced management team, strong brand-name recognition, and solid product and geographic diversification.

While A.M. Best believes the ratings for Liberty Mutual Insurance Companies' members are appropriately positioned at the current levels, negative rating actions could occur if the group's underwriting and operating performance falls below A.M. Best's expectations or risk-adjusted capitalization weakens to a level that no longer supports current ratings.

Rating Unit Members

Liberty Mutual Insurance Companies (AMB# 000060)

Rating Unit Members (Continued ...)

AMB#	Company	BEST'S		Pool %
		FSR	ICR	
002283	Liberty Mutual Insurance Co	A	a	50.0
002394	Peerless Insurance Company	A	a	20.0
002159	Employers Ins Co of Wausau	A	a	8.0
002282	Liberty Mutual Fire Ins Co	A	a	8.0
002378	Ohio Casualty Insurance Co	A	a	8.0
002448	Safeco Ins Co of America	A	a	6.0
002186	America First Insurance Co	A	a	
012568	America First Lloyds Ins Co	A	a	
002286	American Economy Insurance Co	A	a	
000128	American Fire & Casualty Co	A	a	
002290	American States Ins Co of TX	A	a	
002287	American States Insurance Co	A	a	
003610	American States Lloyds Ins Co	A	a	
002289	American States Preferred Ins	A	a	
011812	Bridgefield Casualty Ins Co	A	a	
012158	Bridgefield Employers Ins Co	A	a	
011325	Colorado Casualty Ins Co	A	a	
002253	Consolidated Insurance Co	A	a	
000349	Excelsior Insurance Company	A	a	
010764	First Liberty Ins Corp	A	a	
002446	First National Ins Co of Amer	A	a	
002447	General Ins Co of America	A	a	
012076	Golden Eagle Insurance Corp	A	a	
000900	Hawkeye-Security Insurance Co	A	a	
002254	Indiana Insurance Company	A	a	
004938	Insurance Company of Illinois	A	a	
003795	LM General Insurance Company	A	a	
010765	LM Insurance Corporation	A	a	
004785	LM Property & Casualty Ins Co	A	a	
012569	Liberty County Mutual Ins Co	A	a	
003794	Liberty Ins. Underwriters, Inc	A	a	
001812	Liberty Insurance Corporation	A	a	
012410	Liberty Lloyds of Texas Ins Co	A	a	
000588	Liberty Mutual Mid-Atlantic	A	a	
013107	Liberty Mutual Personal Ins Co	A	a	
001814	Liberty Northwest Ins Corp	A	a	
003028	Liberty Personal Insurance Co	A	a	
012078	Liberty Surplus Ins Corp	A	a	

Rating Unit Members (Continued ...)

AMB#	Company	BEST'S		Pool %
		FSR	ICR	
002322	Mid-American Fire & Cas Co	A	a	
002323	Midwestern Indemnity Company	A	a	
000662	Montgomery Mutual Ins Co	A	a	
003672	National Insurance Association	A	a	
002393	Netherlands Insurance Co	A	a	
012533	North Pacific Insurance Co	A	a	
002379	Ohio Security Insurance Co	A	a	
012532	Oregon Automobile Ins Co	A	a	
002088	Peerless Indemnity Ins Co	A	a	
002709	Safeco Ins Co of Illinois	A	a	
012053	Safeco Insurance Company IN	A	a	
012425	Safeco Insurance Company of OR	A	a	
001896	Safeco Lloyds Insurance Co	A	a	
004240	Safeco National Insurance Co	A	a	
001867	Safeco Surplus Lines Ins Co	A	a	
002550	Wausau Business Insurance Co	A	a	
004274	Wausau General Insurance Co	A	a	
000956	Wausau Underwriters Ins Co	A	a	
011354	West American Insurance Co	A	a	

Key Financial Indicators

Period Ending	Statutory Data (\$000)					
	Premiums Written		Pre-tax Operating Income	Net Income	Total Admitted Assets	Policyholder's Surplus
	Direct	Net				
2012	28,297,511	24,148,201	-630,362	-114,744	71,757,172	16,770,678
2011	26,658,768	22,257,623	-809,380	-498,335	68,038,555	15,987,817
2010	25,318,187	21,483,996	1,015,900	1,349,349	67,073,315	16,365,273
2009	24,772,894	20,630,466	1,062,908	922,398	65,204,208	14,722,635
2008	26,331,558	22,249,415	2,022,344	1,595,287	61,899,802	12,346,512
03/2013	6,978,282	5,996,543	-340,172	-231,950	80,670,362	16,504,438
03/2012	6,772,793	5,743,474	361,558	454,917	70,335,571	16,802,792

Key Financial Indicators (Continued ...)

Period Ending	Profitability			Leverage			Liquidity	
	Combined Ratio	Investment Yield (%)	Pre-Tax ROR (%)	Non-Affiliated Investment Leverage	NPW to PHS	Net Leverage	Overall Liquidity (%)	Operating Cash-flow (%)
2012	110.5	3.9	-2.7	53.0	1.4	4.7	130.7	107.7
2011	111.2	3.9	-3.8	60.9	1.4	4.6	131.1	100.8
2010	104.2	4.3	4.8	55.2	1.3	4.3	132.7	103.5
2009	103.3	3.9	5.2	38.9	1.4	4.8	129.5	100.6
2008	102.2	5.2	8.9	42.0	1.8	5.7	125.7	111.1
5-Yr Avg	106.4	4.3	2.4	...	...	...	...	...
03/2013	109.1	3.3	-5.8	45.5	1.5	5.2	125.9	95.7
03/2012	103.7	4.1	6.5	58.8	1.3	4.5	131.7	109.1

Due to A.M. Best's consolidation procedures, historical data of recent acquisitions is included within the financial tables for all years.

(*) Within several financial tables of this report, this company is compared against the Commercial Casualty Composite.

(*) Data reflected within all tables of this report has been compiled through the A.M. Best Consolidation of statutory filings.

Business Profile

Liberty Mutual is principally engaged in underwriting virtually all lines of personal and commercial property/casualty business and ranks as the fourth-largest insurance group in the United States, based on net premiums written. Liberty Mutual's business mix is nearly evenly split, although over the past two years, personal lines have grown to exceed commercial lines. Private passenger automobile and homeowners are the group's largest lines of business, followed by workers' compensation, commercial multi-peril and other liability occurrence.

Liberty Mutual continues to thrive on its name recognition, customer service, technological advantages, strategic alliances in managed care, and breadth of its products and value-added services. Insurance products and services are distributed primarily through independent agents and a direct sales force. The direct sales force affords Liberty with a significant competitive expense advantage relative to its peers, while also enhancing the group's overall franchise value. In addition to independent agents and a direct sales force, the group also markets its commercial products to national insurance brokers. Furthermore, Liberty Mutual utilizes an affinity marketing program, which currently offers insurance products through more than 15,000 sponsored affinity group relationships including employers, professional and alumni associations, credit unions, and other partnerships.

Liberty Mutual's property/casualty operations are managed on a Strategic Business Unit (SBU) basis. On July 24, 2012, Liberty Mutual announced the realignment of its four SBUs into Personal Insurance, Commercial Insurance, Liberty International and Global Specialty.

The Personal Insurance business unit offers 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 (including Individual Life) and independent agent distributions (under the Safeco Corporation ("Safeco") brand). Personal Lines products are distributed through licensed captive representatives, licensed telesales counselors, third-party producers (including banks for life products) and the Internet. Personal Lines' largest source of new business is through its sponsored affinity groups (including employers, professional and alumni associations, credit unions and other partnerships). Safeco products are distributed nationally through independent agents.

The Commercial Insurance business unit sells 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 four market segments: Business Insurance, National Insurance, Group Benefits, and Other Commercial Insurance. Business Insurance serves the small and middle market segments through a regional operating model that combines local underwriting, market knowledge and service orientation 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 insurance products and group life insurance. Other Commercial Insurance primarily consists of internal reinsurance and assumed business from state based workers' compensation involuntary market pools. Commercial Insurance is also a servicing carrier for state based workers' compensation involuntary market pools.

The Liberty International business unit provides property, casualty, health and life insurance products and services to individuals and businesses in four geographic regions: Latin America, including Venezuela, Brazil, Columbia, Argentina (Liberty ART S.A., a workers' compensation business, was sold in June 2012, Liberty Seguros Argentina S.A. 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 (as a result of the Quinn Insurance Limited ("QIL") acquisition in November 2011), United Kingdom (as a result of exercising the renewal rights option over the Great Britain and Northern Ireland portfolios of QIL) and Russia (as a result of the KIT Finance Insurance acquisition in March 2012); Asia, including Thailand, Singapore, China (including Hong Kong), and Vietnam; and India. Private passenger automobile insurance is the single largest line of business.

The Global Specialty business unit is composed of a wide array of products and services offered through three market segments: Liberty International Underwriters ("LIU"), Liberty Mutual Surety ("LMS"), and Liberty Mutual Reinsurance ("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 Liberty's Lloyd's Syndicate 4472, also provides multi-line insurance and reinsurance worldwide written through the Lloyd's 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.

Scope of Operations

Scope of Operations (Continued ...)

Total Premium Composition & Growth Analysis

Period Ending	Direct Premiums Written		Reinsurance Premiums Assumed		Reinsurance Premiums Ceded		Net Premiums Written	
	(\$000)	(%Chg)	(\$000)	(%Chg)	(\$000)	(%Chg)	(\$000)	(%Chg)
2012	28,297,511	6.1	933,208	32.4	5,082,518	-0.5	24,148,201	8.5
2011	26,658,768	5.3	704,648	12.4	5,105,793	14.5	22,257,623	3.6
2010	25,318,187	2.2	626,898	4.6	4,461,089	-5.9	21,483,996	4.1
2009	24,772,894	-5.9	599,187	-4.5	4,741,615	0.7	20,630,466	-7.3
2008	26,331,558	0.7	627,510	5.3	4,709,652	20.9	22,249,415	-2.7
5-Yr CAGR	...	1.6	...	9.4	...	5.5	...	1.1
03/2013	6,978,282	3.0	9,856,039	11.6	10,837,777	9.9	5,996,543	4.4
03/2012	6,772,793	4.8	8,830,229	5.1	9,859,548	4.9	5,743,474	5.2

Territory

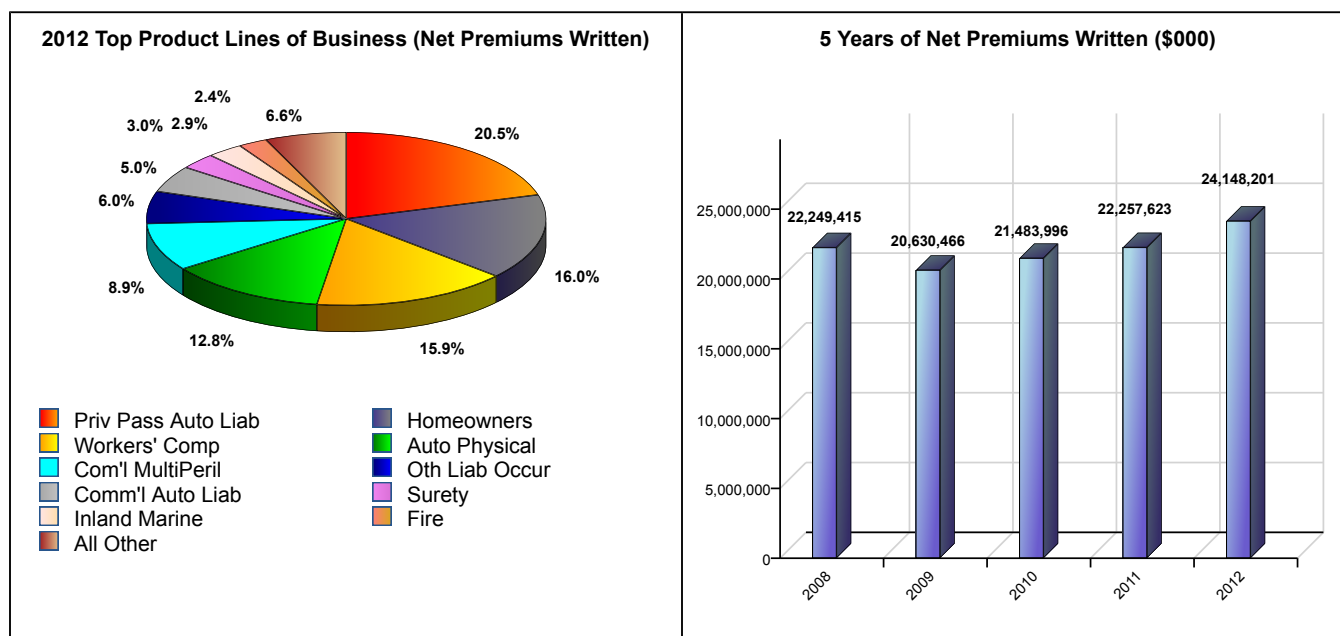
The individual member companies of the group collectively operate in all states, Puerto Rico and the U.S. Virgin Islands. It is also licensed in all provinces of Canada.

Business Trends

2012 By-Line Business (\$000)

Product Line	Direct Premiums Written		Reinsurance Premiums Assumed		Reinsurance Premiums Ceded		Net Premiums Written		Business Retention %
	(\$000)	(%)	(\$000)	(%)	(\$000)	(%)	(\$000)	(%)	
Priv Pass Auto Liab	4,959,382	17.5	164,385	17.6	166,544	3.3	4,957,224	20.5	96.7
Homeowners	4,628,086	16.4	5,935	0.6	778,048	15.3	3,855,973	16.0	83.2
Workers' Comp	4,179,078	14.8	188,928	20.2	538,742	10.6	3,829,264	15.9	87.7
Auto Physical	3,614,973	12.8	132,250	14.2	644,272	12.7	3,102,951	12.8	82.8
Com'l MultiPeril	2,296,973	8.1	42,723	4.6	189,616	3.7	2,150,080	8.9	91.9
Oth Liab Occur	1,904,888	6.7	106,522	11.4	558,695	11.0	1,452,715	6.0	72.2
Comm'l Auto Liab	1,239,507	4.4	17,787	1.9	50,827	1.0	1,206,467	5.0	96.0
Surety	725,674	2.6	6,378	0.7	14,211	0.3	717,842	3.0	98.1
Inland Marine	2,595,026	9.2	16,222	1.7	1,900,929	37.4	710,319	2.9	27.2
Fire	587,196	2.1	37,493	4.0	55,574	1.1	569,115	2.4	91.1
All Other	1,566,728	5.5	214,585	23.0	185,061	3.6	1,596,252	6.6	89.6
Total	28,297,511	100.0	933,208	100.0	5,082,518	100.0	24,148,201	100.0	82.6

Business Trends (Continued ...)



By-Line Reserve (\$000)

Product Line	2012	2011	2010	2009	2008
Priv Pass Auto Liab	4,120,115	4,052,640	4,157,965	4,113,250	4,086,913
Homeowners	1,106,061	1,082,818	936,380	814,081	1,070,502
Workers' Comp	15,739,846	14,783,380	14,596,712	14,591,839	14,495,977
Auto Physical	113,028	130,651	129,799	143,944	148,605
Com'l MultiPeril	3,059,911	3,081,863	2,952,996	2,852,094	2,925,058
Oth Liab Occur	4,175,674	3,860,226	3,894,134	3,873,938	4,136,490
Comm'l Auto Liab	1,814,015	1,744,393	1,733,276	1,812,695	1,958,097
Surety	180,123	223,119	346,590	384,796	332,218
Inland Marine	111,807	80,204	120,500	148,404	149,952
Fire	323,106	200,687	136,946	199,893	313,385
All Other	3,262,861	3,233,684	2,894,693	2,914,589	2,328,896
Total	34,006,547	32,473,664	31,899,992	31,849,523	31,946,094

Market Share / Market Presence

Market Share / Market Presence (Continued ...)

Geographical Breakdown By Direct Premium Writings (\$000)

	2012	2011	2010	2009	2008
California	3,007,017	2,790,317	2,695,515	2,693,675	2,958,617
New York	2,259,294	2,208,229	2,109,102	1,993,727	2,031,956
Texas	1,893,386	1,732,939	1,599,091	1,588,129	1,701,881
Florida	1,508,213	1,411,989	1,314,230	1,402,142	1,656,724
New Jersey	1,291,075	1,219,756	1,173,572	1,162,300	1,210,938
Pennsylvania	1,235,359	1,134,404	1,106,427	1,060,894	1,105,184
Massachusetts	1,129,173	1,040,406	944,330	838,615	815,902
Washington	960,868	923,387	923,622	917,760	964,624
Illinois	839,677	808,333	839,920	847,816	928,082
Tennessee	793,761	686,737	504,960	469,667	518,665
All Other	13,379,689	12,702,273	12,107,417	11,798,168	12,438,985
Total	28,297,511	26,658,768	25,318,187	24,772,894	26,331,558

Risk Management

Liberty Mutual Insurance Companies' risk management is done as part of the Liberty Mutual Holding Company Inc. (LMHC) enterprise, which maintains an extensive Enterprise Risk Management (ERM) program that is comprehensive and integrated throughout its worldwide operations. Risk management is a core competency of the enterprise and central to the operational execution of its strategic plan. Oversight of ERM resides with the Enterprise Risk Management Committee (ERMC), chaired by the CEO and coordinated by the CFO, which evaluates exposures and directs ERM actions within the organization's operations. All strategic business unit (SBU) presidents and the CEO of Liberty International Underwriters are members of the ERMC, along with key functional leaders with direct responsibility for key components of enterprise level risks (the CFO, Chief Actuary, General Counsel, Chief Investment Officer and Treasurer). The ERMC has oversight of all major enterprise exposures including credit risk, state premium concentrations in the context of regulatory risk, catastrophe exposure (terror and natural) and emerging risks related to policy coverage, litigation, regulatory and legislative issues. Board-level oversight of ERM is conducted through the Risk Committee of the Board of Directors (RCBD). The Director of ERM Analytics (equivalent to the Chief Risk Officer) attends Board of Directors and ERMC meetings. Capital modeling and allocation is performed across all SBUs and by line and country.

The CEO, CFO or a designee reports on risk management activities three times per year to the RCBD and a minimum of annually to the full Board of Directors. The RCBD also reports to the full Board at least three times per year. If macro-economic or market conditions dictate, the full Board receives updates more frequently. The RCBD reviews whether risk tolerances are acceptable a minimum of three times per year, while the full Board makes such reviews a minimum of once per year. Risk metrics and risk management activities are reported to the SBUs quarterly.

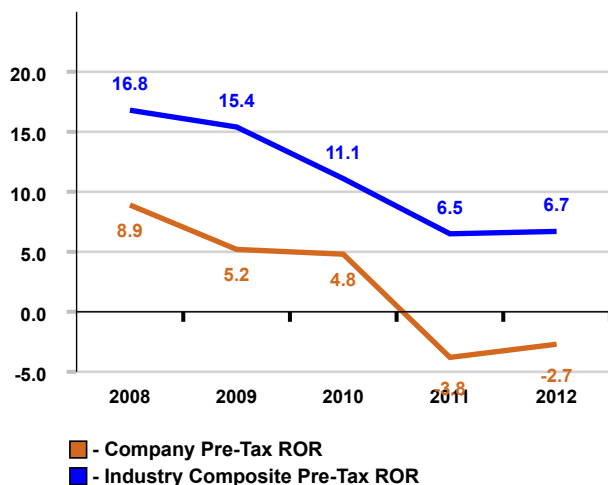
Operating Performance

Operating Results: Liberty Mutual has generated modest operating results as evidenced by its five-year pretax return on premium and surplus measures that trail the commercial casualty composite average. The group's overall earnings have been enhanced by solid levels of investment income which have offset underwriting losses in recent years, 2011 and 2012 being exceptions primarily due to unusually high underwriting losses stemming from significant catastrophe losses. On a total return basis, earnings have historically benefited from realized capital gains; however, given the investment market volatility in recent years, profitability was negatively impacted by realized capital losses in 2008 and 2009. In addition, adverse loss reserve development in prior accident years has continued to impact operating results to some extent. While near term earnings are dependent on management's ability to maintain prudent underwriting and pricing standards amidst continued challenging market conditions, Liberty Mutual's diversification initiatives, as well as its multiple distribution channels and extensive service capability, provide the group with significant operating flexibility. However, competitive market conditions, the low interest rate environment and ongoing exposure to catastrophe losses will continue to challenge Liberty Mutual's operating performance over the near term.

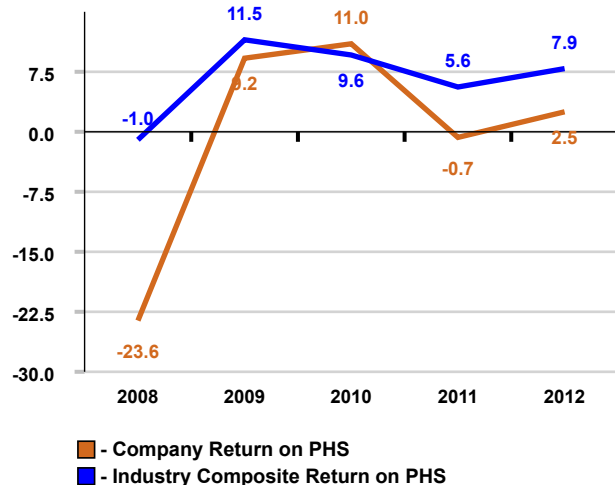
Profitability Analysis

Period Ending	Company							Industry Composite		
	Pre-tax Operating Income	After-tax Operating Income	Net Income	Total Return	Pre-Tax ROR	Return on PHS	Operating Ratio	Pre-Tax ROR	Return on PHS	Operating Ratio
2012	-630,362	-390,940	-114,744	417,317	-2.7	2.5	101.4	6.7	7.9	92.4
2011	-809,380	-652,934	-498,335	-108,741	-3.8	-0.7	101.8	6.5	5.6	93.1
2010	1,015,900	1,133,629	1,349,349	1,704,420	4.8	11.0	93.7	11.1	9.6	88.2
2009	1,062,908	947,065	922,398	1,246,580	5.2	9.2	93.8	15.4	11.5	84.6
2008	2,022,344	1,664,578	1,595,287	-3,460,022	8.9	-23.6	90.6	16.8	-1.0	83.6
5-Yr Avg/Tot	2,661,409	2,701,398	3,253,955	-200,447	2.4	-0.3	96.3	11.3	6.8	88.4
03/2013	-340,172	-306,445	-231,950	-979,617	-5.8	-8.8	104.3	XX	XX	XX
03/2012	361,558	409,608	454,917	904,218	6.5	1.4	93.0	XX	XX	XX

Pre-Tax ROR Comparison with Industry Composite



Return on PHS Comparison with Industry Composite



Underwriting Results

Underwriting Results: Liberty Mutual has reported below-average underwriting results over the recent five-year period, as its five-year average combined ratio is approximately three points higher than the commercial casualty composite. The group's combined ratio has deteriorated in recent years reflecting competitive markets, unfavorable loss trends in select lines of business, less favorable loss-reserve development and an increase in loss activity in the group's reinsurance business resulting from several large loss events. In years 2010 through 2012, the group's combined ratio increased largely due to higher catastrophe losses (equating to approximately 5.3 points, 10.5 points and 7.8 points on the combined ratio in those years, respectively, as compared with 3.5 points in 2009), a swing from favorable to unfavorable prior year loss reserve development in 2011 and 2012 (largely due to the workers' compensation and other liability occurrence lines, in part, due to asbestos development in 2011) and losses associated with business growth.

In recent years, the group's premium volume has been restrained by competitive market conditions, deteriorating macroeconomic conditions, planned premium reductions in workers' compensation insurance, and a change from direct distribution to third party distribution in some commercial markets. Recent slowed growth in commercial lines has been offset by increases in the private passenger automobile and homeowners' business due to strong customer retention, new business growth and positive rate increases, resulting in more substantial overall growth.

Liberty Mutual's global diversification strategy, which began in the early 1990s, has expanded its revenue streams across lines of business while reducing dependence on any single product line, distribution channel or geographic region. As a result, the group's mix of business has shifted towards personal lines, particularly private passenger auto liability, the independent agency channel, and international personal and small commercial business policies in targeted countries with an emerging middle class. In addition, Liberty Mutual implemented a dedicated claims unit, enhanced its mass marketing program, and developed a system and infrastructure to handle direct-response marketing. Liberty Mutual has aggressively used advertising, as it has proven to be a successful, ever-increasing tool to grow in this environment. Furthermore, the addition of business from recent acquisitions also provides the group with enhanced geographic and product diversification. Complementing this effort has been management's plan in the commercial markets to reduce risk through significant emphasis on enterprise risk management and loss control, broadening its fee-based products and pricing, expansion of unbundled service and managed care operations, while restructuring the claims operation in recent years to hold down loss costs.

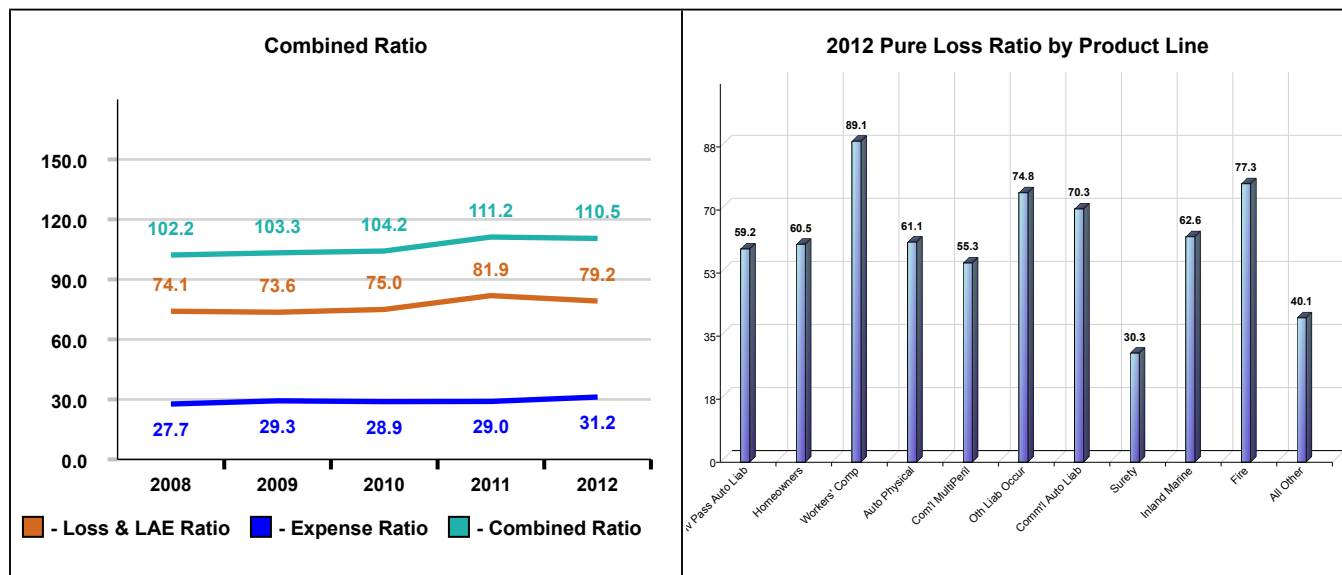
Underwriting Experience

Year	Net Undrw Income (\$000)	Loss Ratios			Expense Ratios			Div. Pol.	Comb. Ratio
		Pure Loss	LAE	Loss & LAE	Net Comm	Other Exp.	Total Exp.		
2012	-2,731,990	64.0	15.2	79.2	6.9	24.3	31.2	0.2	110.5
2011	-2,627,855	66.1	15.9	81.9	6.2	22.8	29.0	0.3	111.2
2010	-1,011,681	60.5	14.6	75.0	7.0	21.9	28.9	0.3	104.2
2009	-726,952	58.1	15.6	73.6	6.9	22.4	29.3	0.3	103.3
2008	-386,804	60.7	13.4	74.1	6.7	21.0	27.7	0.3	102.2
5-Yr Avg	-7,485,282	61.9	14.9	76.8	6.7	22.5	29.3	0.3	106.4
03/2013	-588,347	55.6	14.0	69.6	XX	XX	39.3	0.2	109.1
03/2012	-253,163	60.9	13.3	74.1	XX	XX	29.4	0.2	103.7

Underwriting Results (Continued ...)

Loss Ratio By Line

Product Line	2012	2011	2010	2009	2008	5-Yr. Avg.
Priv Pass Auto Liab	59.2	59.2	60.8	59.8	60.9	60.0
Homeowners	60.5	78.4	60.6	59.2	72.1	66.5
Workers' Comp	89.1	84.2	78.8	72.0	66.5	77.3
Auto Physical	61.1	61.6	55.1	53.9	59.2	58.4
Com'l MultiPeril	55.3	67.6	61.0	55.7	61.1	60.2
Oth Liab Occur	74.8	53.0	64.5	49.8	35.8	55.8
Comm'l Auto Liab	70.3	67.7	51.5	51.1	57.4	59.3
Surety	30.3	7.5	14.5	21.4	15.6	17.8
Inland Marine	62.6	60.0	59.9	63.9	61.4	61.6
Fire	77.3	61.3	40.2	62.1	104.8	69.7
All Other	40.1	66.4	56.6	55.0	45.7	52.5
Total	64.0	66.0	60.7	58.5	60.1	61.9



Underwriting Results (Continued ...)

Direct Loss Ratios By State

	2012	2011	2010	2009	2008	5-Yr. Avg.
California	58.0	54.9	54.5	47.8	51.2	53.3
New York	82.7	64.0	63.7	55.5	54.4	64.5
Texas	66.7	67.0	42.5	50.7	94.8	64.7
Florida	58.7	58.1	64.6	48.4	46.8	54.8
New Jersey	88.6	68.3	56.5	59.1	54.7	65.7
Pennsylvania	56.9	62.3	86.0	58.6	54.5	63.5
Massachusetts	56.1	64.7	55.9	57.9	58.2	58.6
Washington	42.1	35.2	42.6	48.6	51.7	44.1
Illinois	53.8	75.3	71.0	62.2	69.7	66.4
Tennessee	66.8	99.4	65.0	59.9	64.5	72.5
All Other	61.1	66.4	58.5	60.8	62.8	61.9
Total	62.9	64.5	58.8	56.9	60.8	60.9

Investment Results

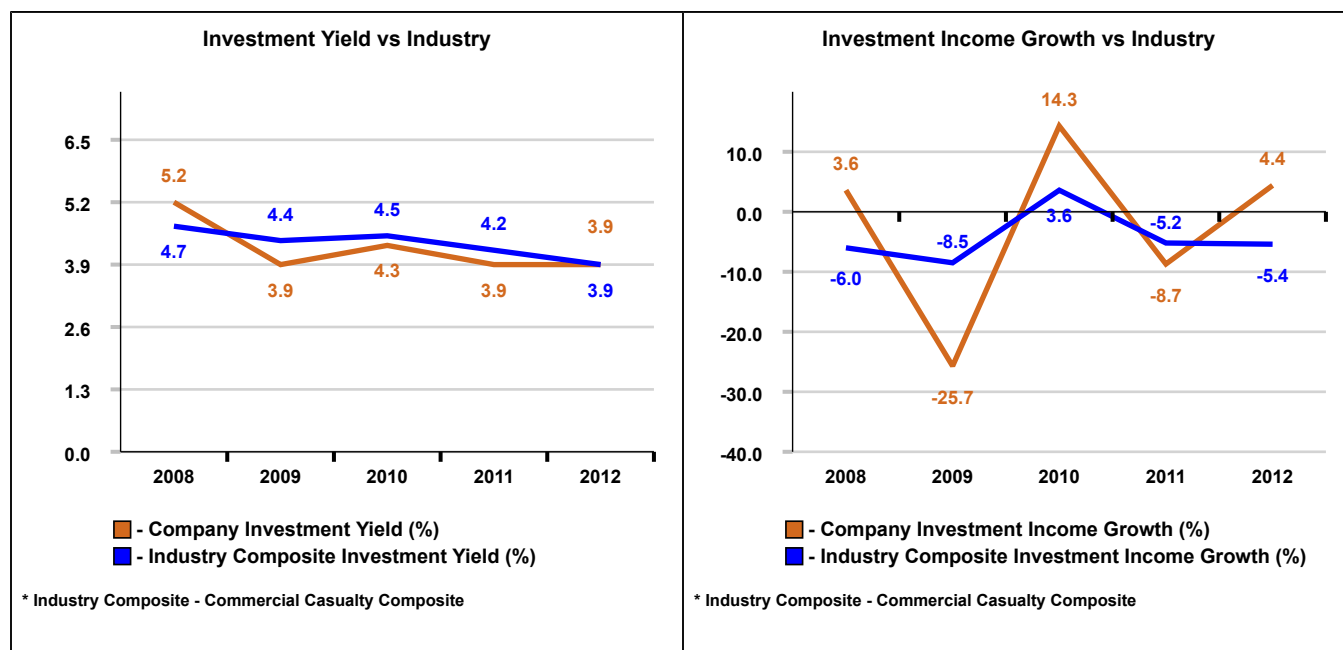
Investment Results: Liberty Mutual's investment strategy remains committed to maximizing long-term returns through a diversified portfolio of high-quality investments. The group maintains a prudent investment portfolio comprised of intermediate-term government and government agency securities, high quality corporate bonds, and mortgage backed securities. Investments in equity securities are lower in recent years and represented less than 4% of total invested assets and less than 10% of policyholders' surplus at year-end 2012.

In earlier years, the group reported growth in investment income reflective of an increase in the invested asset base, driven by strong cash flow from operations and the proceeds received from the group's debt offerings. During 2008, the group reported an increase in investment income, driven primarily by an increase in the invested asset base due to solid operating cash flows, as well as the cash proceeds received from a mid-year debt issuance. However, growth in the level of investment income was somewhat suppressed by lower investment yields available on the fixed income portfolio. Furthermore, the group reported realized capital losses due to impairment losses on fixed income and equity securities caused by volatility in the financial markets. In 2009, the group's net investment income declined significantly due to a reduction in affiliated dividend income, the low interest rate environment and a change in the group's investment strategy to reduce its total equity exposure. Liberty Mutual's net investment income recovered some in 2010, increasing approximately \$0.3 billion. In 2011, the group's net investment income declined \$0.2 billion largely due the continued low interest rate environment and its impact on investment yields. In 2012, improved operating cash flows and a modest improvement in invested assets combined with a flat yield on investments resulted in a modest increase net investment income. The group's five-year average yield is nearly on par with the commercial casualty composite.

Investment Results (Continued ...)

Investment Gains (\$000)

Year	Company							Industry Composite	
	Net Investment Income (\$000)	Realized Capital Gains (\$000)	Unrealized Capital Gains (\$000)	Investment Income Growth (%)	Investment Yield (%)	Return on Invested Assets (%)	Total Return (%)	Investment Income Growth (%)	Investment Yield (%)
2012	2,119,900	276,196	532,061	4.4	3.9	4.5	5.5	-5.4	3.9
2011	2,030,294	154,598	389,594	-8.7	3.9	4.2	4.9	-5.2	4.2
2010	2,223,725	215,720	355,071	14.3	4.3	4.8	5.5	3.6	4.5
2009	1,944,980	-24,667	324,182	-25.7	3.9	3.9	4.6	-8.5	4.4
2008	2,617,343	-69,291	-5,055,309	3.6	5.2	5.1	-4.8	-6.0	4.7
5-Yr Avg/Tot	10,936,242	552,557	-3,454,402	-3.6	4.3	4.5	3.1	-4.4	4.4
03/2013	279,008	74,495	-747,666	-53.5	3.3	3.8	2.6	XX	XX
03/2012	600,435	45,309	449,300	32.6	4.1	4.3	5.1	XX	XX



Balance Sheet Strength

Capitalization

Capitalization: Liberty Mutual has reported modest decline in policyholder surplus during the recent five-year period, as evidenced by its five-year compounded annual growth rate (CAGR) of -0.2%. The group reported strong growth in policyholder surplus in earlier years reflective of favorable underwriting performance, increasing levels of investment income and capital contributions from its parent, Liberty Mutual Group, Inc. (LMGI). During March 2005 and August 2006, LMGI raised an additional \$500 million and \$750 million of new debt, respectively, and contributed the entire proceeds to the insurance subsidiaries. During March 2007, LMGI raised an additional \$1.0 billion of hybrid capital, the proceeds of which were utilized to strengthen overall capitalization of the insurance subsidiaries, as well as for general corporate purposes. During May 2008, LMGI raised an additional \$1.25 billion of hybrid capital, the proceeds of which were used to fund a portion of the acquisition of Safeco Corp. Despite the additional proceeds, surplus declined in 2008 as a result of additional non-admitted goodwill, in combination with substantial unrealized losses in the investment portfolio and other than temporary impairment (OTTI) charges recorded in its fixed income and equity portfolios given the volatility in the financial markets. In 2009, the group's policyholder surplus increased rather significantly, driven by modest operating income, unrealized capital gains and other changes in surplus, primarily related to a change in non-admitted goodwill from acquisitions and deferred tax assets. Policyholder's surplus further increased in 2010, driven by net income, unrealized capital gains and a capital contribution, partially offset by stockholder dividends. In 2011, the group's surplus declined modestly largely reflecting its net loss and stockholder dividends, partially mitigated by unrealized capital gains. In 2012, surplus increased again largely reflecting realized and unrealized capital gains, which more than offset operating losses. Given the group's business plans, modest growth expectations and cycle management initiatives, A.M. Best believes Liberty Mutual will generate surplus growth organically over the near term, although at reduced levels given current market conditions and lower investment returns due to the lower interest rate environment and the group's relatively modest equity exposure.

Liberty Mutual's overall capitalization adequately supports the current financial strength rating as measured by Best's Capital Adequacy Ratio (BCAR). A.M. Best's view of capitalization also considers the equity built into the group's large unearned premium reserve. The group's capital position is reflective of profitable operating results in recent years (2011 and 2012 being exceptions), capital contributions from its parent company, LMGI, and its moderate exposure to natural catastrophes. In addition, the group's policyholders' surplus at year-end 2012 included surplus notes of \$623 million. The group's capitalization also reflects the financial flexibility of the ultimate holding company, Liberty Mutual Holding Company, Inc. (LMHC).

While Liberty Mutual's overall capitalization improved in recent years, policyholder surplus declined approximately 27% in 2008, resulting in elevated underwriting leverage measures, lower liquidity ratios and a deterioration in the group's risk-adjusted capitalization. While its underwriting leverage measures have improved since that time (albeit modestly increasing in 2011 and 2012 as compared with 2010), these measures are still relatively high compared with the commercial casualty composite. A.M. Best will continue to monitor Liberty Mutual's capitalization to assess its sustainability to weather any additional negative effects from both the underwriting and investment markets.

Capital Generation Analysis (\$000)

Year	Source of Surplus Growth							% Change in PHS
	Pre-tax Operating Income	Realized Capital Gains	Income Taxes	Unrealized Capital Gains	Net Contributed Capital	Other Changes	Change in PHS	
2012	-630,362	276,196	-239,422	532,061	17,480	348,064	782,861	4.9
2011	-809,380	154,598	-156,447	389,594	-247,040	-21,675	-377,457	-2.3
2010	1,015,900	215,720	-117,729	355,071	-50,874	-10,907	1,642,639	11.2
2009	1,062,908	-24,667	115,843	324,182	-141,068	1,270,611	2,376,123	19.2
2008	2,022,344	-69,291	357,766	-5,055,309	-599,282	-551,861	-4,611,165	-27.2
5-Yr Total	2,661,409	552,557	-39,989	-3,454,402	-1,020,785	1,034,232	-187,000	-0.2
03/2013	-340,172	74,495	-33,726	-747,666	612,857	-1,451	-368,210	-1.6
03/2012	361,558	45,309	-48,050	449,300	-219,959	130,716	814,975	5.1

Capitalization (Continued ...)

Quality of Surplus (\$000)

Year	Surplus Notes	Other Debt	Contributed Capital	Unassigned Surplus	Year End Policyholders Surplus	Conditional Reserves	Adjusted Policyholders Surplus
2012	633,293	...	8,806,187	7,331,198	16,770,678	103,320	16,873,997
2011	805,539	...	8,978,685	6,203,592	15,987,817	136,509	16,124,325
2010	805,444	...	9,179,611	6,380,219	16,365,273	158,071	16,523,344
2009	805,348	...	8,709,914	5,207,373	14,722,635	146,048	14,868,683
2008	902,075	...	8,308,813	3,135,624	12,346,512	299,768	12,646,280
03/2013	633,309	...	8,648,499	7,222,631	16,504,438	103,276	16,607,714
03/2012	805,563	...	8,464,554	7,532,675	16,802,792	136,808	16,939,600

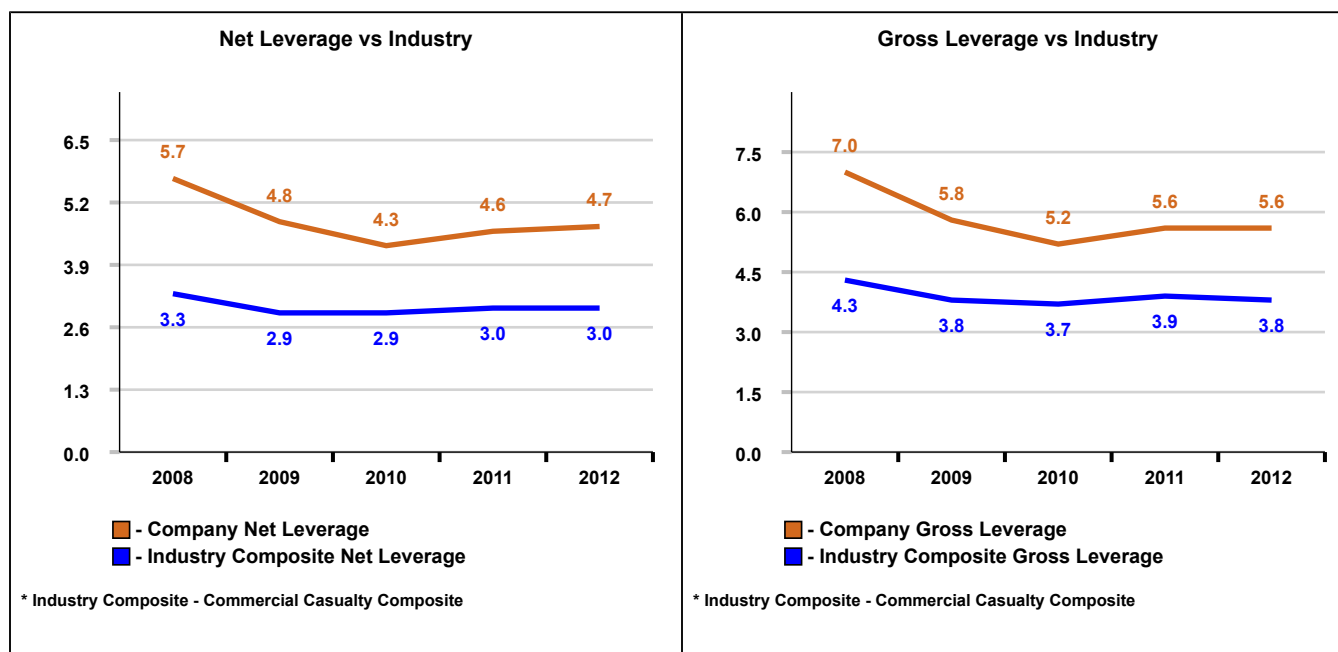
Underwriting Leverage

Leverage Analysis

Year	Company				Industry Composite			
	NPW to PHS	Reserves to PHS	Net Leverage	Gross Leverage	NPW to PHS	Reserves to PHS	Net Leverage	Gross Leverage
2012	1.4	2.0	4.7	5.6	0.8	1.5	3.0	3.8
2011	1.4	2.0	4.6	5.6	0.8	1.5	3.0	3.9
2010	1.3	1.9	4.3	5.2	0.7	1.5	2.9	3.7
2009	1.4	2.2	4.8	5.8	0.7	1.5	2.9	3.8
2008	1.8	2.6	5.7	7.0	0.9	1.6	3.3	4.3
03/2013	1.5	2.1	5.2	XX	XX	XX	XX	XX
03/2012	1.3	1.9	4.5	XX	XX	XX	XX	XX

Current BCAR: 161.4

Underwriting Leverage (Continued ...)



Ceded Reinsurance Analysis (\$000)

Year	Company				Industry Composite		
	Ceded Reinsurance Total	Business Retention (%)	Reinsurance Recoverables to PHS (%)	Ceded Reinsurance to PHS (%)	Business Retention (%)	Reinsurance Recoverables to PHS (%)	Ceded Reinsurance to PHS (%)
2012	15,640,390	82.6	61.2	93.3	82.6	59.1	84.5
2011	15,855,184	81.3	66.2	99.2	81.6	59.4	84.5
2010	14,559,104	82.8	60.9	89.0	81.2	57.6	80.4
2009	15,443,101	81.3	72.0	104.9	82.6	61.2	84.8
2008	15,938,419	82.5	90.2	129.1	84.6	70.6	97.6

2012 Reinsurance Recoverables (\$000)

	Paid & Unpaid Losses	Incurred But Not Reported (IBNR) Losses	Unearned Premiums	Other Recoverables *	Total Reinsurance Recoverables
US Affiliates	23,995,657	24,343,448	15,896,374	339,864	64,575,343
Foreign Affiliates	43,883	53,453	7,763	-60,501	44,598
US Insurers	2,343,117	3,005,721	605,495	-965,327	4,989,006
Pools/Associations	2,108,860	938,945	184,347	-27,723	3,204,429
Other Non-Us	815,117	1,226,494	299,184	-311,817	2,028,978
Total(ex Us Affils)	5,310,977	5,224,613	1,096,789	-1,365,368	10,267,011
Grand Total	29,306,634	29,568,061	16,993,163	-1,025,504	74,842,354

* Includes Commissions less Funds Withheld

Loss Reserves

Loss Reserves: While Liberty Mutual experienced significant adverse prior year loss reserve development in earlier calendar years, the group has experienced favorable development during three of the past five calendar years (2011 and 2012 being the exceptions), with accident years 2003-2011 recording redundancies, except for 2010. In 2011 and 2012, relatively modest unfavorable prior year loss reserve development occurred largely due to development of asbestos claims, as well as development in the workers' compensation and other liability occurrence lines. The favorable results in calendar years 2007 through 2009 were driven by the solid performance within the private passenger auto, commercial multi-peril and commercial auto liability lines, offset by adverse development occurring primarily within the other liability occurrence line, as well as older workers' compensation accident year reserves. While Liberty Mutual reported significant adverse development in accident years 1998 through 2001, largely related to deterioration in commercial automobile and workers' compensation lines of business, accident years 2002 and subsequent years have developed favorably to date with the exception of accident year 2010, reflective of pricing discipline and the group's increasing use of technology, particularly its price monitoring initiatives.

Liberty Mutual's workers' compensation reserves represented nearly 50% of the group's total reserves at year-end 2012. Liberty does not discount reserves other than tabular discounting on the long-term indemnity portion of workers' compensation claims and specific asbestos structured settlements. For statutory basis accounting, the tabular discounting on workers' compensation claims is based upon Unit Statistical Plan tables as approved by the respective states.

Liberty Mutual's potential asbestos and environmental (A&E) liability primarily stems from its pre-1986 commercial liability policies, historically written on a primary level with some low levels of excess. After significant reserve charges occurring annually during the 2001 through 2005 period, Liberty's three-year survival ratio has improved. The measure improves further when adjusted for buyouts, structured settlements and commutations in place, however, still trails the A.M. Best benchmark composite. In recent years, aggressive litigation and resolution strategies, combined with its role as a primary carrier, have played a major role in contributing to Liberty Mutual's higher than average paid loss activity. In 2009, Liberty Mutual completed a biennial account level study of its asbestos exposure which indicated a required reserve increase of \$383 million. In 2011, a ground up study indicated a required asbestos reserve increase of \$292 million, primarily related to mesothelioma claims. Since 1993, Liberty Mutual has centralized all environmental staff into a dedicated department comprised of environmental specialists including claims, legal, systems, reinsurance and consulting to handle A&E claims and litigation.

Loss and ALAE Reserve Development: Calendar Year (\$000)

Calendar Year	Original Loss Reserves	Developed Reserves Thru 2012	Development to Original (%)	Development to PHS (%)	Development to NPE (%)	Unpaid Reserves @ 12/2012	Unpaid Reserves to Development (%)
2012	33,756,114	33,756,114	...	...	145.3	33,756,114	100.0
2011	32,424,712	32,607,182	0.6	1.1	151.2	24,613,768	75.5
2010	31,844,809	32,264,890	1.3	2.6	153.2	19,154,992	59.4
2009	31,698,613	31,819,815	0.4	0.8	155.7	15,540,772	48.8
2008	31,950,112	31,842,098	-0.3	-0.9	140.8	12,972,735	40.7
2007	30,753,115	30,155,171	-1.9	-3.5	134.4	11,014,120	36.5

Loss and ALAE Reserve Development: Accident Year (\$000)

Accident Year	Original Loss Reserves	Developed Reserves Thru 2012	Development to Original (%)	Unpaid Reserves @ 12/2012	Accident Year Loss Ratio	Accident Year Comb. Ratio
2012	9,142,346	9,142,346	...	9,142,346	77.6	109.0
2011	8,413,722	8,411,802	0.0	5,458,776	80.5	109.8
2010	8,187,859	8,246,479	0.7	3,614,220	76.2	105.4
2009	8,205,876	7,906,121	-3.7	2,568,037	73.8	103.4
2008	9,467,664	8,934,934	-5.6	1,958,615	75.7	103.7
2007	8,850,093	7,902,222	-10.7	1,412,585	66.2	96.4

Loss Reserves (Continued ...)

Asbestos And Environmental Reserves Analysis

Year	Company						Industry Composite		
	Net A&E Reserves (\$000)	Reserve Retention (%)	Net Incurred But Not Reported (IBNR) Mix (%)	Survival Ratio (3 Yr)	Comb. Ratio Impact (1 Yr)	Comb. Ratio Impact (3 Yr)	Survival Ratio (3 Yr)	Comb. Ratio Impact (1 Yr)	Comb. Ratio Impact (3 Yr)
2012	1,205,197	45.9	53.8	4.8	0.6	0.6	9.1	0.6	0.6
2011	1,322,901	48.9	50.8	5.3	1.6	1.1	9.1	0.5	0.6
2010	1,181,133	45.2	54.6	4.5	-0.5	0.6	7.2	0.7	0.5
2009	1,572,313	49.4	73.8	...	2.1	...	...	0.6	...
2008	1,391,956	44.2	57.4	...	0.1	...	...	0.3	...

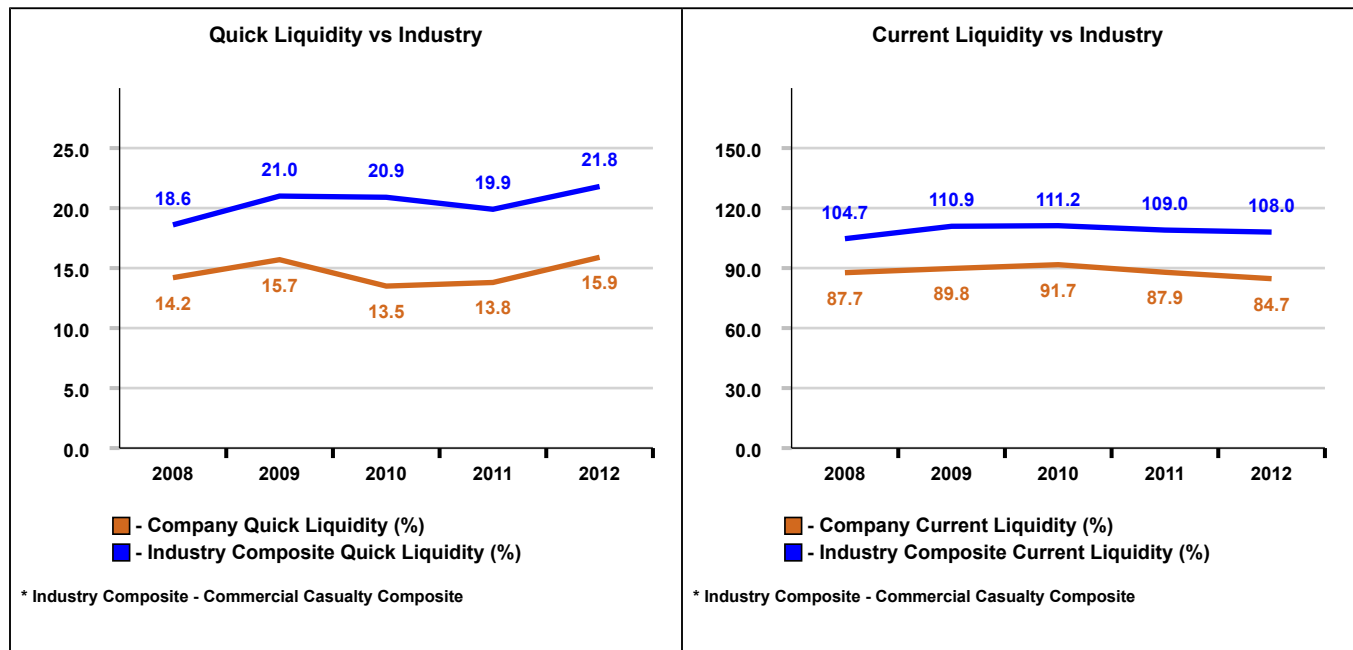
Liquidity

Liquidity: Liberty Mutual maintains a sound liquidity position as invested assets exceed current liabilities by a comfortable margin; however the group's liquidity measures have trended downward in recent years and trail the commercial casualty composite. Given the extraordinary long-term receivables associated with its large commercial accounts business, Liberty Mutual's liquidity appears modest. However, most of the insurance contracts related to these receivables are retrospectively rated and are collateralized by letters of credit or other securities which enhances overall liquidity. While underwriting and operating cash flows have historically enhanced overall liquidity, both measures have declined in recent years, reflective of the reduction in premium and weaker earnings.

Liquidity Analysis

Year	Company				Industry Composite			
	Quick Liquidity (%)	Current Liquidity (%)	Overall Liquidity (%)	Gross Agents Balances to PHS (%)	Quick Liquidity (%)	Current Liquidity (%)	Overall Liquidity (%)	Gross Agents Balances to PHS (%)
2012	15.9	84.7	130.7	10.6	21.8	108.0	144.9	10.9
2011	13.8	87.9	131.1	10.9	19.9	109.0	144.5	10.3
2010	13.5	91.7	132.7	9.4	20.9	111.2	146.2	9.0
2009	15.7	89.8	129.5	11.5	21.0	110.9	146.0	9.1
2008	14.2	87.7	125.7	18.4	18.6	104.7	140.8	11.9
03/2013	XX	67.3	125.9	10.9	XX	XX	XX	XX
03/2012	XX	83.9	131.7	10.4	XX	XX	XX	XX

Liquidity (Continued ...)



Cash Flow Analysis (\$000)

Year	Company					Industry Composite	
	Underwriting Cash Flow	Operating Cash Flow	Net Cash Flow	Underwriting Cash Flow (%)	Operating Cash Flow (%)	Underwriting Cash Flow (%)	Operating Cash Flow (%)
2012	-681,087	1,878,303	456,174	97.2	107.7	98.2	110.7
2011	-1,515,779	185,914	-269,985	93.5	100.8	96.5	107.6
2010	-1,061,766	813,267	-968,544	95.3	103.5	96.6	108.6
2009	-1,571,686	136,613	-603,087	92.8	100.6	98.4	109.5
2008	542,425	2,510,676	1,664,313	102.5	111.1	101.2	112.6
5-Yr Total	-4,287,893	5,524,773	278,871	...	...	...	...
03/2013	-717,895	-287,378	-723,933	89.3	95.7	XX	XX
03/2012	-296,736	551,491	-137,902	95.1	109.1	XX	XX

Investments

Investments: Liberty Mutual maintains a prudent investment portfolio with approximately 65% of invested assets in fixed income securities. The group's common stock leverage has trended lower in recent years and remained below 10% at year-end 2012, although net purchases on common stock occurred in years 2010 through 2012. In 2008, the group's statutory surplus was impacted by the volatility in the financial markets, as evidenced by substantial unrealized investment losses and other than temporary impairment (OTTI) charges recorded in its fixed income and equity portfolios.

The group has a moderate amount of affiliated stacking, primarily relating to its diversification into international markets, life and other financial services companies, as well as other businesses complementing its domestic property/casualty operations.

Investments (Continued ...)

As a result, affiliated investment leverage has increased in recent years reflective of the investment associated with establishing a presence in global markets, which the group has identified for expansion.

Investment Leverage Analysis (% of PHS)

Year	Company						Industry Composite	
	Class 3-6 Bonds	Real Estate / Mortgages	Other Invested Assets	Common Stock	Non - Affiliated Investment Leverage	Affiliated Investments	Class 3-6 Bonds	Common Stock
2012	17.2	6.7	19.6	9.6	53.0	63.2	7.1	10.3
2011	25.6	6.3	21.5	7.6	60.9	57.1	7.4	9.5
2010	24.8	6.3	18.6	5.5	55.2	47.7	7.2	9.0
2009	17.4	6.4	12.5	2.6	38.9	50.1	6.0	8.2
2008	12.1	7.3	16.4	6.2	42.0	53.0	5.4	9.1

Investments - Bond Portfolio

2012 Distribution By Maturity

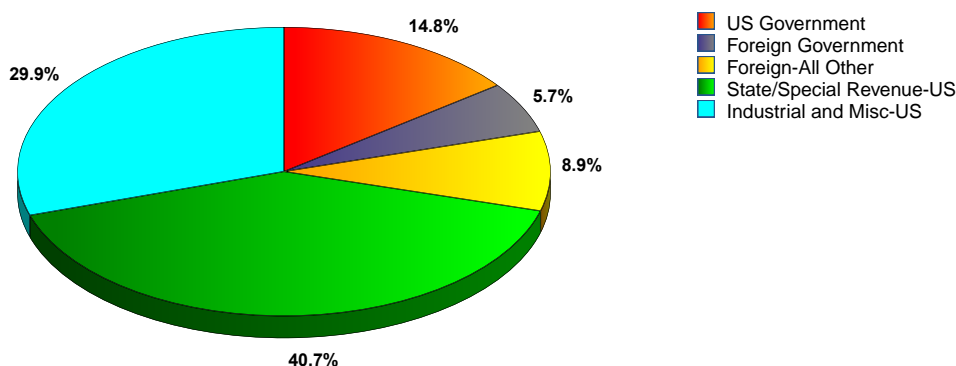
	Years					Years Average Maturity
	0-1	1-5	5-10	10-20	20+	
Government	1.5	5.9	6.0	5.1	1.1	8.5
Government Agencies & Muni.	3.5	12.2	10.7	10.2	2.3	8.5
Industrial & Misc.	9.3	15.9	13.8	1.5	1.0	5.0
Total	14.3	34.0	30.5	16.8	4.4	7.0

Investments - Bond Portfolio (Continued ...)

Bond Distribution By Issuer Type

	2012	2011	2010	2009	2008
Bonds (000)	36,481,597	36,616,308	37,332,519	37,073,160	34,287,113
US Government	14.8	11.4	11.5	16.3	6.8
Foreign Government	5.7	4.3	3.9	2.4	1.4
Foreign-All Other	8.9	6.7	5.8	3.9	3.8
State/Special Revenue-US	40.7	43.0	44.7	50.9	57.0
Industrial and Misc-US	29.9	34.6	34.1	26.6	31.0

2012 Bond Distribution By Issuer Type



Bond Percent Private vs Public

	2012	2011	2010	2009	2008
Private Issues	12.0	6.5	7.8	3.7	3.1
Public Issues	88.0	93.5	92.2	96.3	96.9

Bond Quality Percent

	2012	2011	2010	2009	2008
Class 1	78.4	73.7	75.6	83.6	86.5
Class 2	14.1	15.5	14.0	9.8	9.6
Class 3	2.8	4.4	4.7	3.5	2.5
Class 4	3.9	5.5	4.7	2.2	1.2
Class 5	0.4	0.6	0.8	0.4	0.2
Class 6	0.5	0.3	0.1	0.4	...

Investments - Equity Portfolio

	2012	2011	2010	2009	2008
Total Stocks(000)	4,106,499	3,717,305	3,755,870	3,302,839	3,631,663
Unaffiliated Common	39.1	32.5	23.9	11.7	21.0
Affiliated Common	51.3	57.8	62.2	52.8	45.2
Unaffiliated Preferred	9.6	9.6	13.9	15.9	16.0
Affiliated Preferred	...	...	...	19.6	17.8

Investments - Mortgage Loans And Real Estate

	2012	2011	2010	2009	2008
Mortgage Loans and Real Estate (000)	1,420,943	1,319,833	1,369,071	1,330,262	1,373,001
Mortgage Loans	78.6	75.8	75.5	70.9	65.7
Property Occupied by Company	21.4	24.2	24.4	29.1	34.3
Property Held for Income	0.1	0.1	0.1	0.1	0.1

Investments - Other Invested Assets

	2012	2011	2010	2009	2008
Other Invested Assets(000)	13,823,311	11,843,043	10,271,765	9,491,730	9,461,393
Cash	4.5	4.4	5.3	13.9	3.8
Short-Term	11.8	10.7	14.8	18.0	34.6
Schedule BA Assets	80.5	77.6	72.3	67.8	61.5
All Other	3.2	7.2	7.6	0.2	0.1

History

Liberty Mutual Insurance Company, the cornerstone of the Liberty Mutual Insurance Companies, was organized in Boston in 1912 with the primary purpose of providing workers' compensation insurance at cost. Since that time, the group has grown into one of the largest multi-line writers of property/casualty business in the U.S. Liberty ranks 81st among the Fortune 500 largest corporations in the U.S. based on 2012 revenue.

A community of interest has existed since 1942 between the management of Liberty Mutual Insurance Company and Liberty Mutual Fire Insurance Company as well as Liberty Life Assurance Company of Boston (a wholly owned subsidiary since 1963). Two subsidiaries, Liberty Northwest Insurance Corporation and Liberty Insurance Corporation, were formed in 1983 to afford expanded presence in key geographic areas as well as increased underwriting and pricing flexibility. In 1986, a Bermuda based stock insurance company, Lexco Limited, was formed to provide an alternative source of excess lines coverage on a claims made basis. In 1988, Keyport Life Insurance Company (formerly Keystone Provident Life Insurance Company) was acquired. In 1989, two additional subsidiaries were formed: LM Insurance Corporation, which underwrites commercial risks, and The First Liberty Insurance Corporation, providing primarily personal lines coverages. In 1993, the U.S. contract surety bond operations of CIGNA were acquired. In 1995, mergers and acquisition activity included the acquisition of Liberty Mexico Seguros S.A. and C.A. Venezuela Seguros Caracas. Most notably among Liberty's 1996 M&A activities were the acquisitions of Prudential of America General Insurance Company of Canada (since renamed Liberty Insurance Company of Canada) and Companhia Paulista de Seguros of Brazil, as well as Liberty's affiliation agreement with Maryland-based, Montgomery Mutual Insurance Company.

In February 1997, Liberty Mutual formed Liberty Re, a UK-based reinsurer. Two subsidiaries were formed, Liberty Massachusetts Trust, a holding company for international subsidiaries, and Liberty Insurance Company of America, an Illinois property and casualty company. In May of 1997, Pennsylvania-based Merchants and Business Men's Mutual Insurance Company agreed to affiliate with Liberty. In December of 1997, Liberty continued its expansion into South America by purchasing Skandia Compania de Seguros Generales S.A. (since renamed Liberty Seguros S.A.), a Colombian non-life company. This provides Liberty with operations in each of its five target Latin American markets. Early in 1998, Liberty International formed a new captive management service company, Liberty International Management Bermuda Ltd. (LIMB). In forming LIMB, Liberty International purchased essentially all of the assets of Argus International Management Ltd., a captive management group owned by Argus Group. Liberty owns 80% of LIMB with Argus owning the remaining 20%.

On June 2, 1997, the California Superior Court approved an agreement to award the business of California-based Golden Eagle Insurance Company to Liberty Mutual Insurance Company. Under the terms of the settlement agreement, a comprehensive rehabilitation plan was underwritten by Liberty Mutual and two new subsidiaries were formed. The first, Golden Eagle Insurance Corporation, is a member of the Peerless Insurance Company pool and writes all of the new and renewal business from the former Golden Eagle Insurance Company, now in liquidation. The second, San Diego Insurance Company (San Diego), is not rated and is used solely for the purpose of housing the financial results from the run-off of Golden Eagle Insurance Company's outstanding liabilities. San Diego reinsures up to 135% of Golden Eagle Insurance Company's ceded assets to cover outstanding liabilities, in return for the renewal rights to Golden Eagle Insurance Company's business. Liberty Mutual guarantees San Diego's performance under this agreement.

During 1998 and 1999, Liberty Mutual continued to add to its group of regional affiliated companies. Added in 1998 were Summit Holding Southeast, Inc. and Colorado Casualty Insurance Company, through acquisition. Summit Holdings includes two statutory insurance companies, Bridgefield Casualty Insurance Company and Bridgefield Employers Insurance Company, as well as U.S. Employers Insurance Inc., a Grand Cayman Island domiciled reinsurer. Colorado Casualty provided Liberty Mutual with a presence in the mountain states region, as it expanded its distribution to independent agency placed main street commercial lines markets. Also during 1998, Liberty Mutual affiliated with Employers Insurance of Wausau and acquired Wausau's affiliates. This affiliation served to further solidify Liberty's position as the leading U.S. workers' compensation carrier, as Wausau's market strength within the Midwest and broker market bolsters Liberty's market presence. Finally in 1998, due to ongoing soft reinsurance market conditions world-wide, Liberty Mutual shut down operations of its U.K. based reinsurer, Liberty Re. In 1999, Liberty further strengthened its agency operations with the purchase of the U.S. operations of Guardian Royal Exchange (GRE) from AXA, following AXA's acquisition of GRE. This operation was renamed Liberty Insurance Holdings, Inc. Operations provided Liberty Mutual with a strong independent agency distribution system in the Northeast and Midwest.

During 2001, Liberty Mutual continued its expansion domestically and internationally. In October, Liberty announced the acquisition of the independent agency business of OneBeacon Insurance Group (excluding New England, New York and New Jersey), which provided Liberty access to its approximately \$1.0 billion book of small commercial and personal lines independent agency business. In addition, Liberty Mutual expanded into the Spanish market by acquiring Liberty Seguros from the Hartford Financial Services Group and Royal & Sun Alliance's property and casualty and life insurance operations.

At a Special Meeting on November 9, 2001, policyholders voted in favor of a plan to reorganize Liberty Mutual Company into a mutual holding company structure. The Massachusetts Insurance Commissioner approved the plan on November 27, 2001,

History (Continued ...)

and on November 28, 2001, Liberty Mutual Insurance Company reorganized to a stock insurance company, indirectly owned by its newly-formed parent Liberty Mutual Holding Company, Inc. This was the first step in a series of transactions designed to bring Liberty Mutual Insurance Company, Liberty Mutual Fire Insurance Company and Employers Insurance Company of Wausau under a single mutual holding company structure. This process was completed in March 2002.

In May 2003, Liberty Mutual announced the acquisition Prudential Financial Inc.'s U.S. property/casualty operations in 47 states, excluding New Jersey, specialty auto and affinity business. This acquisition, which gave Liberty Mutual a \$1.1 billion book of personal auto and homeowners renewals, was consistent with the group's strategy to diversify its product offerings by expanding its personal lines segment. The acquisition closed on October 31, 2003.

On January 9, 2004, Liberty Mutual announced it concluded the acquisition process of MetLife's Spanish operations, including its non-life subsidiary Genesis Seguros Generales, S.A., and its life subsidiary, Seguros Genesis, S.A. The companies offer auto and homeowners insurance as well as individual life insurance and retirement savings products.

On January 20, 2004, Liberty announced an agreement to sell its Canadian personal lines property and casualty operations to Meloche Monnex, Inc. On the same date, Liberty opened an office in Chongqing as part of becoming the first foreign property/casualty insurer with a presence in western China.

On March 21, 2005, Liberty announced the acquisition of the property/casualty operations of ING Chile Seguros Generales.

On June 16, 2006, Liberty Mutual signed an agreement with Sert Holding A.S. for the acquisition of a majority of Seker Sigorta shares. Seker Sigorta, an insurer based in Turkey, is a mid-sized insurer that offers a full complement of property-casualty insurance products, with a concentration in personal lines insurance since 1954.

During August 2007, Liberty Mutual finalized its acquisition of Ohio Casualty Corporation. Ohio Casualty Corporation is the holding company of The Ohio Casualty Insurance Company and four other property and casualty insurance companies. Ohio Casualty is a regional provider of property / casualty insurance products predominantly located within the mid-western and mid-Atlantic states.

On October 10, 2007, the company through its Brazilian subsidiary, Liberty International Brasil Ltda., signed an agreement to buy 100% of Indiana Seguros, S.A. The acquisition closed in the fourth quarter of 2007.

On September 22, 2008, Liberty Mutual, through its operating subsidiaries, finalized its acquisition of Safeco Corporation. Safeco Corporation is the holding company for fourteen wholly-owned insurance subsidiaries.

In April 2011, the company through its subsidiary Liberty ITB UK and Europe Limited, entered into an agreement with Anglo Irish Bank (Anglo) to establish Liberty Mutual Ireland Investment Holdings Company Limited (Ireland Holdings). Liberty Mutual has 51% ownership of Ireland Holdings and consolidates the financial position and results of operations. Anglo has the remaining 49% ownership. On November 11, 2011, Ireland Holdings completed the acquisition of the Republic of Ireland business from Quinn Insurance Limited (QIL), a mid-sized insurer in Ireland. The operations of QIL were merged into the International strategic business unit.

In 2012, Liberty Mutual expanded further internationally in two geographic regions: Russia with the acquisition of KIT Finance Insurance in March, and Chile and Ecuador with the acquisitions of Panamericana de Seguros del Ecuador S.A. and Cervantes S.A. Compania de Seguros y Reaseguros in August. In June 2012, Liberty ART S.A., a workers' compensation business in Argentina, was sold. Also in 2012, Liberty Mutual exercised a renewal rights option over the Great Britain and Northern Ireland portfolios of QIL, expanding Liberty Mutual's geographic presence to the United Kingdom.

Management

David H. Long has been President and Chief Executive Officer of Liberty Mutual since July 2011. Mr. Long has also been a member of the board of directors since July 2010. Mr. Long joined Liberty Mutual in 1985 and has over 25 years of comprehensive experience in the property and casualty industry. Edmund F. Kelly, who retired as Chief Executive Officer in 2011, has been chairman of the board of directors since 2001.

Reinsurance

Liberty Mutual utilizes both traditional and non-traditional reinsurance to reduce exposure to loss. The amount of coverage varies geographically to protect Liberty's zonal aggregates. First event Property Catastrophe protection is provided through the

Reinsurance (Continued ...)

Subsequent Event Plus cover with limits of \$650 million excess of \$650 million subject to a \$400 million non-named storm retention. If the non-named storm retention is not met, the Subsequent Event Plus cover provides second event property catastrophe protection with limits of \$650 million excess of \$650 million excess of a \$650 million annual aggregate deductible. Above Subsequent Event Plus, the entry and exit points of the Corporate Property Catastrophe Program are \$1.2 billion in the Northeast and Gulf, and \$1.3 billion in all other geographic locations in the United States. Liberty also utilizes a 30% quota share on its Personal Markets homeowner's line with occurrence caps of \$1.75 billion and \$400 million for Hurricane and Earthquake/Fire Following, respectively. 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 \$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.

Liberty Mutual's external workers compensation catastrophe coverage for both terror and non-terror events provides for a loss limit of \$500 million excess of a \$700 million retention. The maximum any one life (MAOL) limitation is \$10 million. The workers compensation catastrophe coverage also provides a limit of \$500 million for losses arising from a single event at a single insured location excess of a \$200 million retention. Coverage for terrorism is included except for losses caused by NBCR attacks.

Consolidated Balance Sheet (\$000)

Admitted Assets	12/31/2012	12/31/2011	2012 %	2011 %
Bonds	36,481,597	36,616,308	50.8	53.8
Preferred Stock	392,966	358,292	0.5	0.5
Common Stock	1,605,447	1,208,750	2.2	1.8
Cash & Short-Term Invest	2,239,178	1,670,603	3.1	2.5
Real estate, investment	848	910	...	...
Derivatives	...	...	...	...
Other Non-Affil Inv Asset	4,511,981	4,508,619	6.3	6.6
Investments in Affiliates	10,296,487	8,813,993	14.3	13.0
Real Estate, Offices	303,847	319,013	0.4	0.5
Total Invested Assets	55,832,350	53,496,488	77.8	78.6
Premium Balances	8,841,391	8,281,888	12.3	12.2
Accrued Interest	393,180	416,823	0.5	0.6
Life department	...	...	...	...
All Other Assets	6,690,251	5,843,357	9.3	8.6
Total Assets	71,757,172	68,038,555	100.0	100.0

Liabilities & Surplus	12/31/2012	12/31/2011	2012 %	2011 %
Loss & LAE Reserves	34,006,547	32,473,664	47.4	47.7
Unearned Premiums	10,943,284	10,137,341	15.3	14.9
Conditional Reserve Funds	103,320	136,509	0.1	0.2
Derivatives	22,482	...	...	...
Life department	...	...	...	...
All Other Liabilities	9,910,860	9,303,225	13.8	13.7
Total Liabilities	54,986,494	52,050,739	76.6	76.5
Surplus notes	633,293	805,539	0.9	1.2
Capital & Assigned Surplus	8,806,187	8,978,685	12.3	13.2
Unassigned Surplus	7,331,198	6,203,592	10.2	9.1
Total Policyholders' Surplus	16,770,678	15,987,817	23.4	23.5
Total Liabilities & Surplus	71,757,172	68,038,555	100.0	100.0

Interim Balance Sheet (\$000)

Admitted Assets	03/31/2013
Bonds	36,796,441
Preferred Stock	419,546
Common Stock	4,144,164
Cash & Short-Term Invest	1,523,845
Other Investments	13,727,486
Total Invested Assets	56,611,482
Premium Balances	12,472,793
Accrued Interest	375,542
Reinsurance Funds	4,440,539
All Other Assets	6,770,007
Total Assets	80,670,362

Liabilities & Surplus	03/31/2013
Loss & LAE Reserves	34,048,442
Unearned Premiums	11,099,420
Conditional Reserve Funds	103,276
Derivatives	18,008
All Other Liabilities	18,896,777
Total Liabilities	64,165,924
Capital & Assigned Surp	9,281,808
Unassigned Surplus	7,222,631
Total Policyholders' Surplus	16,504,438
Total Liabilities & Surplus	80,670,362

Consolidated Summary Of 2012 Operations (\$000)

Statement of Income	12/31/2012	Funds Provided from Operations	12/31/2012
Premiums earned	23,239,585	Premiums collected	23,592,676
Losses incurred	14,873,528	Benefit & loss-related pmts	13,619,447
LAE incurred	3,523,376		
Undwr expenses incurred	7,524,319	LAE & undwr expenses paid	10,601,008
Other expenses incurred	...	Other income / expense	...
Dividends to policyholders	50,351	Dividends to policyholders	53,309
Net underwriting income	-2,731,990	Underwriting cash flow	-681,087
		Net transfer	...
Net investment income	2,119,900	Investment income	2,326,639
Other income/expense	-18,272	Other income/expense	183,769
Pre-tax operating income	-630,362	Pre-tax cash operations	1,829,321
Realized capital gains	276,196		
Income taxes incurred	-239,422	Income taxes pd (recov)	-48,982
Net income	-114,744	Net oper cash flow	1,878,303

Interim Income Statement (\$000)

	Period Ended 03/31/2013	Period Ended 03/31/2012	Increase / Decrease
Premiums earned	5,849,660	5,587,676	261,984
Losses incurred	3,254,528	3,401,675	-147,147
LAE incurred	816,484	740,591	75,892
Undwr expenses incurred	2,357,148	1,688,302	668,846
Other expenses incurred	...	...	...
Dividends to policyholders	9,848	10,271	-424
Net underwriting income	-588,347	-253,163	-335,184
Net investment income	279,008	600,435	-321,427
Other income/expense	-30,833	14,287	-45,120
Pre-tax operating income	-340,172	361,558	-701,730
Realized capital gains	74,495	45,309	29,186
Income taxes incurred	-33,726	-48,050	14,323
Net income	-231,950	454,917	-686,868

Interim Cash Flow (\$000)

	Period Ended 03/31/2013	Period Ended 03/31/2012	Increase / Decrease
Premiums collected	6,003,220	5,724,238	278,982
Benefit & loss-related pmts	3,248,498	3,288,448	-39,950
LAE & undwr expenses paid	3,461,351	2,718,842	742,509
Dividends to policyholders	11,266	13,685	-2,418
Underwriting cash flow	-717,895	-296,736	-421,158
Net transfer	...	...	...
Investment income	343,828	652,068	-308,239
Other income/expense	98,772	206,607	-107,835
Pre-tax cash operations	-275,294	561,938	-837,233
Income taxes pd (recov)	12,084	10,448	1,637
Net oper cash flow	-287,378	551,491	-838,869

A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

A Best's Debt/Issuer Credit Rating is an opinion regarding the relative future credit risk of an entity, a credit commitment or a debt or debt-like security.

Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. These credit ratings do not address any other risk, including but not limited to liquidity risk, market value risk or price volatility of rated securities. The rating is not a recommendation to buy, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser.

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