

Liberty Mutual Holding Company Inc.

Third Quarter 2015

Consolidated Financial Statements

Liberty Mutual Holding Company Inc.

Consolidated Statements of Operations

(dollars in millions)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
<b>Revenues</b>				
Premiums earned	\$ 8,521	\$ 8,457	\$ 25,340	\$ 24,887
Net investment income	759	804	2,067	2,458
Fee and other revenues	288	329	853	962
Net realized (losses) gains	(256)	(41)	22	13
Total revenues	9,312	9,549	28,282	28,320
<b>Claims, Benefits and Expenses</b>				
Benefits, claims and claim adjustment expenses	5,678	5,767	17,574	17,484
Operating costs and expenses	1,815	1,696	5,245	4,975
Amortization of deferred policy acquisition costs	1,176	1,165	3,499	3,457
Interest expense	110	106	329	310
Interest credited to policyholders	66	68	198	198
Total claims, benefits and expenses	8,845	8,802	26,845	26,424
Loss on extinguishment of debt	(1)	(29)	(1)	(29)
Income before income tax expense, non-controlling interest and discontinued operations	466	718	1,436	1,867
Income tax expense	154	183	438	506
Consolidated net income from continuing operations	312	535	998	1,361
Discontinued operations (net of income tax expense of \$7, \$32, \$16 and \$61 for the three and nine months ended September 30, 2015 and 2014, respectively)	(744)	66	(909)	(119)
Consolidated net (loss) income	(432)	601	89	1,242
Less: Net loss attributable to non-controlling interest	(5)	(4)	(14)	(19)
Net (loss) income attributable to Liberty Mutual Holding Company Inc.	\$ (427)	\$ 605	\$ 103	\$ 1,261
<b>Net Realized (Losses) Gains</b>				
Other-than-temporary impairment losses:	2015	2014	2015	2014
Total other-than-temporary impairment losses	\$ (289)	\$ (77)	\$ (337)	\$ (132)
Change in portion of loss recognized in other comprehensive income	-	-	-	-
Other-than-temporary impairment losses	(289)	(77)	(337)	(132)
Other net realized gains	33	36	359	145
Net realized (losses) gains	\$ (256)	\$ (41)	\$ 22	\$ 13

See accompanying notes to the unaudited consolidated financial statements.

Liberty Mutual Holding Company Inc.

Consolidated Statements of Comprehensive (Loss) Income

(dollars in millions)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Consolidated net (loss) income	\$ (432)	\$ 601	\$ 89	\$ 1,242
Other comprehensive (loss) income, net of taxes:				
Unrealized (losses) gains on securities	(295)	(380)	(761)	602
Reclassification adjustment for gains and (losses) included in consolidated net income	11	(19)	(198)	(78)
Foreign currency translation and other adjustments	(144)	(223)	(338)	(171)
Other comprehensive (loss) income, net of taxes	<u>(428)</u>	<u>(622)</u>	<u>(1,297)</u>	<u>353</u>
Comprehensive (loss) income	<u>\$ (860)</u>	<u>\$ (21)</u>	<u>\$ (1,208)</u>	<u>\$ 1,595</u>

See accompanying notes to the unaudited consolidated financial statements.

Liberty Mutual Holding Company Inc.

Consolidated Balance Sheets

(dollars in millions)

(Unaudited)

	September 30, 2015	December 31, 2014
<b>Assets:</b>		
Investments		
Fixed maturities, available for sale, at fair value (amortized cost of \$61,187 and \$59,951)	\$ 63,293	\$ 63,176
Equity securities, available for sale, at fair value (cost of \$2,573 and \$2,603)	2,776	3,145
Short-term investments	274	626
Commercial mortgage loans	2,222	1,808
Other investments	5,622	5,373
Total investments	74,187	74,128
Cash and cash equivalents	4,042	4,003
Premium and other receivables	10,259	9,919
Reinsurance recoverables	13,695	13,979
Deferred income taxes	699	575
Deferred acquisition costs	3,151	3,001
Goodwill	4,765	4,834
Prepaid reinsurance premiums	1,132	1,192
Other assets	10,381	10,206
Assets held for sale	-	2,456
Total assets	\$ 122,311	\$ 124,293
<b>Liabilities:</b>		
Unpaid claims and claim adjustment expenses and future policy benefits:		
Property and casualty	\$ 49,490	\$ 49,970
Life	9,211	9,030
Other policyholder funds and benefits payable	6,419	5,870
Unearned premiums	17,393	16,855
Funds held under reinsurance treaties	197	210
Current maturities of long-term debt	249	-
Long-term debt	6,982	7,232
Other liabilities	13,288	13,242
Liabilities held for sale	-	1,593
Total liabilities	103,229	104,002
<b>Equity:</b>		
Unassigned equity	20,253	20,150
Accumulated other comprehensive income	(1,234)	57
Total policyholders' equity	19,019	20,207
Non-controlling interest	63	84
Total equity	19,082	20,291
Total liabilities and equity	\$ 122,311	\$ 124,293

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,	
	2015	2014
Balance at beginning of the year	\$ 20,291	\$ 19,012
Cumulative effect of adoption of ASU 2014-01 (Note 1)	-	8
Comprehensive (loss) income:		
Consolidated net income	89	1,242
Other comprehensive (loss) income, net of taxes	(1,297)	353
Total comprehensive (loss) income	(1,208)	1,595
Capital contributions from non-controlling interest	1	1
Dividends to non-controlling interest	(2)	-
Balance at end of the period	<u>\$ 19,082</u>	<u>\$ 20,616</u>

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,	
	2015	2014
<b>Cash flows from operating activities:</b>		
Consolidated net income	\$ 89	\$ 1,242
Less - (Loss) from Venezuela discontinued operations, net of tax expense	(909)	(38)
Income from continuing operations	998	1,280
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation and amortization	683	487
Realized (gains) losses (including loss on sale of discontinued operations)	(22)	62
Undistributed private equity investment gains	(142)	(560)
Premium, other receivables, and reinsurance recoverables	(869)	(3,298)
Deferred acquisition costs	(195)	(206)
Liabilities for insurance reserves	2,164	1,544
Taxes payable, net of deferred	298	547
Other, net	(262)	(235)
Total adjustments	1,655	(1,659)
Net cash provided by (used in) operating activities - continuing operations	2,653	(379)
Net cash provided by operating activities - Venezuela discontinued operations	696	447
Net cash provided by operating activities	3,349	68
<b>Cash flows from investing activities:</b>		
Purchases of investments	(14,022)	(10,450)
Sales and maturities of investments	11,719	11,177
Property and equipment purchased, net	(778)	(587)
Cash paid for disposals and acquisitions, net of cash on hand	-	(1,043)
Other investing activities	(11)	296
Net cash used in investing activities - continuing operations	(3,092)	(607)
Net cash used in investing activities - Venezuela discontinued operations	(70)	(81)
Net cash used in investing activities	(3,162)	(688)
<b>Cash flows from financing activities:</b>		
Net activity in policyholder accounts	429	424
Debt financing, net	(1)	325
Net security lending activity and other financing activities	77	52
Net cash provided by financing activities - continuing operations	505	801
Net cash provided by financing activities - Venezuela discontinued operations	1	-
Net cash provided by financing activities	506	801
Effect of exchange rate changes on cash - continuing operations	(27)	(8)
Effect of exchange rate changes on cash - Venezuela discontinued operations	(69)	(304)
Effect of exchange rate changes on cash	(96)	(312)
Net increase (decrease) in cash and cash equivalents - continuing operations	39	(193)
Net increase in cash and cash equivalents - Venezuela discontinued operations	558	62
Net increase (decrease) in cash and cash equivalents	597	(131)
Cash and cash equivalents, beginning of year	4,716	4,778
Cash and cash equivalents, of Venezuela beginning of year	713	512
Cash and cash equivalents, beginning of year - continuing operations	4,003	4,266
Cash and cash equivalents, end of period	5,313	4,647
Cash and cash equivalents, of Venezuela end of period	1,271	574
Cash and cash equivalents, end of period - continuing operations	\$ 4,042	\$ 4,073

See accompanying notes to the unaudited consolidated financial statements.

# Liberty Mutual Holding Company Inc.

## Notes to Consolidated Financial Statements

(dollars in millions)

(Unaudited)

### (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 2014 consolidated financial statements to conform with the 2015 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) recoverability of deferred acquisition costs, (5) valuation of goodwill and intangible assets, (6) deferred income tax valuation allowance, and (7) pension and postretirement benefit obligations. While the amounts included in the accompanying consolidated financial statements reflect management's best estimates and assumptions, these amounts ultimately could vary.

Effective September 30, 2015, the Company determined it was appropriate to deconsolidate the Venezuelan operations and recognized an impairment charge of \$690. Concurrent with this decision, the Company has classified the Venezuelan operations (a net loss of \$54 and \$219 for the three and nine months ended September 30, 2015, respectively) and the related impairment charge as discontinued operations and held for sale. The Company will account for its ongoing investment in Venezuela on the cost basis and will no longer include the results of the Venezuelan operation in the consolidated statements of operations.

#### Adoption of Accounting Standards

Effective January 2014, the Company elected to adopt the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-01, *Accounting for Investments in Qualified Affordable Housing Projects* ("ASU 2014-01"). This guidance, as codified in Accounting Standards Codification ("ASC") 323, *Investments—Equity Method and Joint Ventures*, allows entities that invest in certain qualified affordable housing projects through limited liability entities the option to account for these investments using the proportional amortization method if certain conditions are met. Under the proportional amortization method, the entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense or benefit. The effect of adopting ASU 2014-01 impacts various lines on the accompanying consolidated balance sheet and statement of operations. Although the effect was not material, the 2014 financial statements have been restated.

Effective January 1, 2015, the Company elected to adopt the FASB issued ASU 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* ("ASU 2013-11"), which provides accounting guidance regarding the presentation of an unrecognized tax benefit. The new guidance requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. However, to the extent tax carryforwards are not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require, and the entity does not intend to use the deferred tax asset for such purpose, the unrecognized tax benefit will be presented in the financial statements as a liability and will not be combined with the related deferred tax asset. There was no material impact on the Company's financial statements as a result of this accounting guidance.

In April 2014, the FASB issued ASU 2014-08, (Topic 205 and Topic 360) *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* ("ASU 2014-08"). ASU 2014-08 modifies the definition of discontinued operations by limiting discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have (or will have) a major effect on an entity's operations and financial results. Also, ASU 2014-08 requires additional financial statement disclosures about discontinued operations, as well as disposals of an individually significant component of an entity that do not qualify for discontinued operations presentation. ASU 2014-08 was effective for all disposals (or classifications as held for sale) of components of an entity that occurred within annual and interim periods beginning on or after December 15, 2014 and for all businesses that, on acquisition, were classified as held for sale that also occurred within interim and annual periods beginning on or after December 15, 2014. The Company implemented this guidance effective January 1, 2015. (See Note 2 for further discussion.)

The Company has not adopted any other accounting standards through the third quarter of 2015.

## Liberty Mutual Holding Company Inc.

### Notes to Consolidated Financial Statements

(dollars in millions)

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#### Accounting Standards Not Yet Adopted

The Company will adopt the FASB issued ASU 2015-02, *Amendments to the Consolidation Analysis* (“ASU 2015-02”) which amends the guidance for determining whether an entity is a variable interest entity (“VIE”). ASU 2015-02 eliminates the separate consolidation guidance for limited partnerships and with it, the presumption that a general partner should consolidate a limited partnership. In addition, ASU 2015-02 changes the guidance for determining if fee arrangements qualify as variable interests and the effect fee arrangements have on the determination of the primary beneficiary. ASU 2015-02 is effective for public business entities for annual and interim reporting periods beginning after December 15, 2015. For all other entities, ASU 2015-02 is effective for fiscal years beginning after December 31, 2016, and for interim periods within fiscal years beginning after December 15, 2017. The adoption of ASU 2015-02 is not expected to have an effect on the Company’s results of operations and financial position, but changes to the Company’s disclosures on variable interest entities will likely be required.

The Company will adopt the FASB issued ASU 2015-03, *Interest – Imputation of Interest – Simplifying the Presentation of Debt Issuance Costs* (“ASU 2015-03”). This guidance requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Prior to the issuance of this standard, debt issuance costs were required to be presented in the balance sheet as an asset. ASU 2015-03 should be applied on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect period-specific effects of applying the new guidance, and is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. For all other entities, ASU 2015-03 is effective for fiscal years, and interim period within those fiscal years, beginning after December 31, 2016. The adoption of ASU 2015-03 is not expected to have a material impact on the Company’s financial statements.

The Company will adopt the FASB issued ASU 2015-09, *Disclosures about Short-Duration Contracts* (“ASU 2015-09”). The amendments apply to all insurance entities that issue short-duration contracts as defined in ASC 944, *Financial Services – Insurance*. The disclosures required by ASU 2015-09 are aimed at providing the users of the financial statements with more transparent information about initial claim estimates and subsequent adjustments to those estimates, methodologies and judgments in estimating claims, and the timing, frequency and severity of claims. The new disclosures will require the accumulation and reporting of new and different groupings of data by insurers for U.S. GAAP reporting from what is currently captured for U.S. statutory and other reporting purposes. For public business entities, the amendments in ASU 2015-09 are effective for annual periods beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016. For all other entities, the amendments of ASU 2015-09 are effective for annual periods beginning after December 15, 2016, and interim periods within annual periods beginning after December 15, 2017. The adoption of ASU 2015-09 is not expected to have an effect on the Company’s results of operations and financial position, but changes to the Company’s disclosures on short-duration contracts will be required.

There are no other accounting standards not yet adopted by the Company that are expected to have an impact on its financial position or results of operations.

#### Accumulated Other Comprehensive (Loss) Income

Accumulated other comprehensive (loss) 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 (loss) income excluding non-controlling interest, net of related deferred acquisition costs and taxes, are as follows:

	<u>September 30, 2015</u>	<u>December 31, 2014</u>
Unrealized gains on securities	\$1,138	\$2,097
Foreign currency translation & other adjustments	(824)	(371)
Pension liability funded status <sup>(1)</sup>	(1,548)	(1,669)
Accumulated other comprehensive (loss) income	<u>\$ (1,234)</u>	<u>\$ 57</u>

<sup>(1)</sup> Includes \$60 for the nine months and year ended September 30, 2015 and December 31, 2014, respectively, due to the recognition of deferred taxes related to the Medicare Part D subsidy.

The following table presents the consolidated other comprehensive (loss) income reclassification adjustments for the three and nine months ended September 30, 2015 and 2014, respectively.



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(Unaudited)

	Unrealized (losses) gains on securities	Change in pension and post retirement plans funded status	Foreign currency translation and other adjustments <sup>(1)</sup>	Total
<b>Three months ended September 30, 2015</b>				
Unrealized change arising during the period	\$ (410)	\$ -	\$ (224)	\$ (634)
Less: Reclassification adjustments included in consolidated net income	(17)	(64)	-	(81)
Total other comprehensive (loss) income, before income tax (benefit) expense	(393)	64	(224)	(553)
Less: Income tax (benefit) expense	(109)	14	(30)	(125)
Total other comprehensive (loss) income, net of income tax (benefit) expense	\$ (284)	\$ 50	\$ (194)	\$ (428)

<sup>(1)</sup> Includes \$(7) of non-controlling interest.

	Unrealized (losses) gains on securities	Change in pension and post retirement plans funded status	Foreign currency translation and other adjustments <sup>(1)</sup>	Total
<b>Three months ended September 30, 2014</b>				
Unrealized change arising during the period	\$ (549)	\$ -	\$ (259)	\$ (808)
Less: Reclassification adjustments included in consolidated net income	30	(21)	-	9
Total other comprehensive (loss) income, before income tax (benefit) expense	(579)	21	(259)	(817)
Less: Income tax (benefit) expense	(180)	7	(22)	(195)
Total other comprehensive (loss) income, net of income tax (benefit) expense	\$ (399)	\$ 14	\$ (237)	\$ (622)

<sup>(1)</sup> Includes \$(2) of non-controlling interest.

	Unrealized (losses) gains on securities	Change in pension and post retirement plans funded status	Foreign currency translation and other adjustments <sup>(1)</sup>	Total
<b>Nine months ended September 30, 2015</b>				
Unrealized change arising during the period	\$ (1,101)	\$ -	\$ (505)	\$ (1,606)
Less: Reclassification adjustments included in consolidated net income	305	(171)	-	134
Total other comprehensive (loss) income, before income tax (benefit) expense	(1,406)	171	(505)	(1,740)
Less: Income tax (benefit) expense	(447)	50	(46)	(443)
Total other comprehensive (loss) income, net of income tax (benefit) expense	\$ (959)	\$ 121	\$ (459)	\$ (1,297)

<sup>(1)</sup> Includes \$(6) of non-controlling interest.

	Unrealized gains on securities	Change in pension and post retirement plans funded status	Foreign currency translation and other adjustments <sup>(1)</sup>	Total
<b>Nine months ended September 30, 2014</b>				
Unrealized change arising during the period	\$ 981	\$ -	\$ (245)	\$ 736
Less: Reclassification adjustments included in consolidated net income	121	(69)	-	52
Total other comprehensive income (loss), before income tax expense (benefit)	860	69	(245)	684
Less: Income tax expense (benefit)	336	24	(29)	331
Total other comprehensive income (loss), net of income tax expense (benefit)	\$ 524	\$ 45	\$ (216)	\$ 353

<sup>(1)</sup> Includes \$(1) of non-controlling interest.

## Liberty Mutual Holding Company Inc.

### Notes to Consolidated Financial Statements

(dollars in millions)

(Unaudited)

## (2) ACQUISITIONS AND DISPOSITIONS

### ACQUISITIONS

#### **Compañía de Seguros Generales Penta Security S.A.**

On July 13, 2015, the Company announced expansion of its presence in Chile by agreeing to acquire an additional insurance company, Compañía de Seguros Generales Penta Security S.A., the fourth largest non-life insurer in Chile. On December 2, 2015, the transaction was approved by the regulator. In addition to the typical acquisition closing conditions, the transaction remains subject to the cooperation of the parties to assure a successful completion of a tender offer process through which minority shareholders will also be invited to tender their shares to the Company.

#### **Hughes Insurance**

On July 1, 2015 the Company completed the acquisition of Hughes Insurance, an independent insurance broker in Northern Ireland. Hughes Insurance offers motor, van, household, small-to-medium-enterprise commercial insurance and travel insurance. Hughes Insurance has been reflected in the consolidated financial statements since the second quarter of 2014.

#### **Uni.Asia General Insurance Berhad**

On July 16, 2014, the Company purchased from Uni.Asia Capital Sdn Bhd its 68.09% stake in Uni.Asia General Insurance Berhad (“Uni.Asia”), a Malaysian property-casualty insurer, for approximately \$118. On September 8, 2014, the Company purchased 18,679,881 ordinary shares representing an additional 18.68% stake in Uni.Asia through a mandatory tender offer for approximately \$32. As a result of these actions, the Company now owns 86.77% of Uni.Asia.

#### **Primero Fianzas**

On July 8, 2014, the Company acquired Mexican surety company Primero Fianzas, a wholly owned subsidiary, from Grupo Valores Operativos Monterrey, a private investor group. The parties have not disclosed the financial terms of the transaction. Primero Fianzas had \$33 of gross written premium in 2013.

### DISPOSITIONS

#### **Venezuela Operations**

Effective as of September 30, 2015, the Company has determined to deconsolidate the Venezuelan subsidiaries and offer the Venezuelan operations for sale.

Since 2010 the Company’s operations in Venezuela have been operating in a hyperinflationary economy with restrictive foreign exchange controls.

On February 10, 2015, the Venezuelan government published changes to its foreign exchange controls, which now maintains a three-tiered system. The new exchange controls retained the CENCOEX, or “official” rate; however, the new exchange controls merged SICAD II into SICAD I, now referred to as SICAD. Additionally, the new exchange controls established the Marginal Foreign Exchange System (“SIMADI”), which is intended to be a free floating rate. As of September 30, 2015, the exchange rate of bolivars per U.S. dollar for CENCOEX, SICAD and SIMADI was 6.3, 13.5, and 198, respectively. The Company used the SICAD rate, consistent with promulgated guidance, to remeasure its Venezuelan operation’s financial statements.

These three mechanisms have become increasingly illiquid over time. The Company believes that significant uncertainty continues to exist regarding the foreign exchange mechanisms in Venezuela, including the nature of transactions that are eligible to flow through CENCOEX, SICAD or SIMADI, how any such mechanisms will operate in the future, as well as the availability of U.S. dollars under each mechanism.

The evolving conditions in Venezuela, including the increasingly restrictive exchange control regulations and other factors, significantly impact our control over the Venezuelan operations. As a result of these factors, which we believe to be other than temporary, we concluded that effective September 30, 2015, we do not meet the accounting criteria for control over the Venezuelan operations, and therefore have deconsolidated these operations in the accompanying financial statements. As a result of deconsolidating, the Company recognized an impairment charge of approximately \$690 which includes the write down of the investment in the previously consolidated Venezuelan operations to fair value and the write-off of related intercompany balances.

As a result of the above, the Company has re-examined its strategy in Venezuela and determined that the Venezuelan operations would be best served under new ownership. In this regard, on November 29, 2015 the Company, through its affiliate, entered into a stock purchase agreement for the sale of the Venezuelan operations. The transaction is subject to certain conditions and the receipt of appropriate regulatory approvals. While the parties seek and await such regulatory approvals, the Venezuelan operations will continue to operate and

**Liberty Mutual Holding Company Inc.**

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(dollars in millions)

(Unaudited)

provide services to policyholders. The Company's Venezuelan operations are classified as discontinued operations on the Company's consolidated financial statements.

The following table summarizes the amounts related to discontinued operations in the consolidated statements of operations.

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Earned premium	\$793	\$492	\$1,949	\$1,462
Net investment income	39	22	95	66
Fee income & other	-	21	-	59
Realized losses	(10)	(1)	(211)	(257)
Total revenues	<u>\$822</u>	<u>\$534</u>	<u>\$1,833</u>	<u>\$1,330</u>
Benefits, claims, and claim adjustment expense	\$588	\$264	\$1,351	\$725
Operating costs and expenses	151	121	373	410
Amortization of deferred policy acquisition costs	121	66	303	194
Total claims benefits and expenses	<u>\$860</u>	<u>\$451</u>	<u>\$2,027</u>	<u>\$1,329</u>
(Loss) income before income tax expense	\$(38)	\$83	\$(194)	\$1
Income tax expense	16	17	25	39
Net (loss) income	<u>\$(54)</u>	<u>\$66</u>	<u>\$(219)</u>	<u>\$(38)</u>
Net loss on deconsolidation, net of tax	\$(662)	\$ -	\$(662)	\$ -
Impairment of intercompany receivables, net of tax	(28)	-	(28)	-
(Loss) income on discontinued operations, net of tax	<u><u>\$(744)</u></u>	<u><u>\$66</u></u>	<u><u>\$(909)</u></u>	<u><u>\$(38)</u></u>

The following table summarizes the amounts related to assets and liabilities held for sale in the consolidated balance sheets.

	<b>As of December 31, 2014</b>
Cash and cash equivalents	\$713
Investments	924
Premiums receivable	410
Reinsurance recoverables	7
Deferred acquisition costs	169
Other assets	233
Total assets held for sale	<u>\$2,456</u>
Unpaid claims and claim adjustment expenses	\$418
Unearned premiums	965
Other liabilities	210
Total liabilities held for sale	<u>\$1,593</u>

**Liberty International Argentina Holdings S.A. and Liberty Risk Services Argentina S.A.**

On February 21, 2014, Liberty International Argentina Holdings S.A. and Liberty Risk Services Argentina S.A. (together, the "Argentina operations") were sold by Liberty International Latin America Holdings LLC and Liberty UK to LAFO S LLC and LAFT S LLC resulting in a net loss of \$77. The results of the Argentina operations are presented as discontinued operations on the accompanying consolidated statements of operations.

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The table below shows the discontinued operating results related to Argentina operations:

	Nine Months Ended September 30,	
	2015	2014
Total revenues	\$-	\$17
Income from operations of Argentina (net of income tax expense of \$0 and \$0 in 2015 and 2014, respectively)	\$-	\$7

**Summit Holding Southeast, Inc.**

On January 9, 2014, the Company announced the sale of Summit Holding Southeast, Inc. and its related companies (“Summit”), a mono-line workers compensation company based in Florida, to American Financial Group. The transaction closed on April 1, 2014 resulting in an immaterial net loss. Accordingly, the results of Summit have been classified as discontinued operations in the consolidated statements of operations.

The table below shows the discontinued operating results related to Summit:

	Nine Months Ended September 30,	
	2015	2014
Total revenues	\$-	\$148
Income from operations of Summit (net of income tax expense of \$0 and \$22 in 2015 and 2014, respectively)	\$-	\$13

**(3) INVESTMENTS**

The amortized cost, gross unrealized gains and losses and fair values of available for sale investments as of September 30, 2015 and December 31, 2014, are as follows:

September 30, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agency securities	\$2,870	\$167	\$(3)	\$ 3,034
Residential MBS <sup>(1)</sup>	7,336	262	(7)	7,591
Commercial MBS	1,670	37	(5)	1,702
Other MBS and ABS <sup>(2)</sup>	3,156	77	(5)	3,228
U.S. state and municipal	13,115	725	(43)	13,797
Corporate and other	28,955	1,193	(462)	29,686
Foreign government securities	4,085	210	(40)	4,255
Total fixed maturities	61,187	2,671	(565)	63,293
Common stock	2,194	395	(147)	2,442
Preferred stock	379	14	(59)	334
Total equity securities	2,573	409	(206)	2,776
Total securities available for sale	\$ 63,760	\$3,080	\$(771)	\$ 66,069

<sup>(1)</sup> Mortgage-backed securities (“MBS”)

<sup>(2)</sup> Asset-backed securities (“ABS”)

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<b>December 31, 2014</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
U.S. government and agency securities	\$2,943	\$192	\$(10)	\$3,125
Residential MBS	7,921	281	(24)	8,178
Commercial MBS	1,483	36	(9)	1,510
Other MBS and ABS	2,855	76	(14)	2,917
U.S. state and municipal	13,020	962	(18)	13,964
Corporate and other	26,977	1,663	(146)	28,494
Foreign government securities	4,752	260	(24)	4,988
Total fixed maturities	59,951	3,470	(245)	63,176
Common stock	2,210	638	(58)	2,790
Preferred stock	393	20	(58)	355
Total equity securities	2,603	658	(116)	3,145
Total securities available for sale	\$62,554	\$4,128	\$(361)	\$66,321

Of the \$2,442 and \$2,790 of common stock as of September 30, 2015 and December 31, 2014, respectively, \$443 and \$437, respectively, related 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, 2015 and December 31, 2014, by contractual maturity are as follows:

	<b>As of September 30, 2015</b>	<b>As of December 31, 2014</b>
Due to mature:		
One year or less	\$3,516	\$3,460
Over one year through five years	16,489	17,009
Over five years through ten years	17,525	17,327
Over ten years	13,242	12,775
MBS and ABS of government and corporate agencies	12,521	12,605
Total fixed maturities	\$63,293	\$63,176

Expected maturities may differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Due to the potential for prepayment on MBS and ABS, they are not categorized by contractual maturity.

The following table summarizes the Company's gross realized gains and losses by asset type for the three and nine months ended September 30, 2015 and 2014, respectively:

<i>Components of Net Realized (Losses) Gains</i>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Fixed maturities:				
Gross realized gains	\$20	\$28	\$155	\$123
Gross realized losses	(26)	(2)	(47)	(58)
Equities:				
Gross realized gains	25	27	276	95
Gross realized losses	(36)	(22)	(80)	(34)
Other:				
Gross realized gains	31	5	46	47
Gross realized losses	(270)	(77)	(328)	(160)
Total net realized (losses) gains	\$(256)	\$(41)	\$22	\$13

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The following table summarizes the gross unrealized losses and fair value of fixed income and equity securities by the length of time that individual securities have been in a continuous unrealized loss position as of September 30, 2015 and that are not deemed to be other-than-temporarily impaired:

September 30, 2015	Less Than 12 Months		12 Months or Longer	
	Fair Value of		Fair Value of	
	Investments with		Investments with	
	Unrealized	Unrealized	Unrealized	Unrealized
	Losses	Losses	Losses	Losses
U.S. government and agency securities	\$(1)	\$212	\$(2)	\$266
Residential MBS	(3)	810	(4)	361
Commercial MBS	(4)	486	(1)	137
Other MBS and ABS	(3)	559	(2)	255
U.S. state and municipal	(37)	1,494	(6)	141
Corporate and other	(344)	7,646	(118)	957
Foreign government securities	(19)	870	(21)	337
Total fixed maturities	(411)	12,077	(154)	2,454
Common stock	(130)	754	(17)	41
Preferred stock	(1)	12	(58)	249
Total equities	(131)	766	(75)	290
Total	\$(542)	\$12,843	\$(229)	\$2,744

Unrealized losses increased from \$361 as of December 31, 2014 to \$771 as of September 30, 2015 primarily due to the unfavorable impact of widening credit spreads partially offset by a decrease in 5-year and 10-year treasury yields. Unrealized losses less than 12 months increased from \$150 as of December 31, 2014 to \$542 as of September 30, 2015. Unrealized losses 12 months or longer increased from \$211 as of December 31, 2014 to \$229 as of September 30, 2015. Of the \$17 unrealized losses 12 months or longer on common stock, \$2 relates to securities associated with non-guaranteed unit linked products where the policyholder bears the investment risk. As of September 30, 2015, there were 920 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 (including foreign exchange rates) 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. The Company has concluded that the remaining gross unrealized losses of fixed maturity securities as of September 30, 2015 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 as of September 30, 2015 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. The Company has concluded that the gross unrealized losses of equity securities as of September 30, 2015 are temporary.

The Company reviews fixed maturity securities, equity securities, and other investments 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

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maturity security compared to its amortized cost and is reported as part of net realized gains. The non-credit component, the residual difference between the credit impairment component and the fair value, is recognized in other comprehensive income. The factors considered in making an evaluation for credit versus non-credit other-than-temporary impairment include the following: (a) failure of the issuer of the security to make scheduled interest or principal payments (including the payment structure of the fixed maturity security and the likelihood the issuer will be able to make payments that increase in the future), (b) performance indicators of the underlying assets in the security (including default and delinquency rates), (c) vintage, (d) geographic concentration, (e) impact of foreign exchange rates on foreign currency denominated securities and (f) 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.

#### **Variable Interest Entities**

The Company invests in limited partnerships and other entities subject to 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, 2015, the Company has determined that it is the primary beneficiary of two VIEs in the low-income housing tax credit sector, and as such, these VIEs have 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 VIEs as of September 30, 2015 and December 31, 2014 were immaterial to the Company.

The Company has variable interests in VIEs for which it is not the primary beneficiary and accounts for these VIEs under the equity method in accordance with ASC 323, *Investments-Equity Method and Joint Ventures*. These VIEs are principally private equity limited partnerships in which the Company has invested as a passive limited partner. The partnerships were deemed to be VIEs because the equity holders as a group lack the power to direct the activities that most significantly impact the respective entity's economic performance. The VIEs generate variability primarily from investment portfolio performance and that variability is passed to equity holders. For these VIEs, the Company absorbs a portion, but not a majority, of this variability. The net carrying value of non-consolidated VIEs in which the Company has a significant variable interest was \$365 and \$373 as of September 30, 2015 and December 31, 2014, respectively, and the Company's maximum exposure to loss was \$617 and \$665 as of September 30, 2015 and December 31, 2014, 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 \$13,695 and \$13,979 as of September 30, 2015 and December 31, 2014, respectively, net of allowance for doubtful accounts of \$141 and \$149, respectively. Included in these balances are \$653 and \$548 of paid recoverables and \$13,183 and \$13,580 of unpaid recoverables (including retroactive reinsurance), respectively.

As part of its reinsurance security oversight, the Company has established a Credit Risk 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

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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 operations.

On July 17, 2014, Liberty Mutual Insurance Company (“LMIC”) entered into a reinsurance transaction with National Indemnity Company (“NICO”), a subsidiary of Berkshire Hathaway Inc., on a combined aggregate excess of loss agreement for substantially all of the Company’s U.S. workers compensation (“WC”), asbestos and environmental (“A&E”) liabilities (the “NICO Reinsurance Transaction”), attaching at \$12,522 of combined aggregate reserves, with an aggregate limit of \$6,500 and sublimits of \$3,100 for A&E liabilities and \$4,507 for certain WC liabilities. At the closing of the NICO Reinsurance Transaction, but effective as of January 1, 2014, the Company ceded \$3,320 of existing undiscounted liabilities under this retroactive reinsurance agreement. NICO will provide \$3,180 of additional aggregate adverse development cover. The Company paid NICO total consideration of \$3,046, and recorded a pre-tax loss of \$128. With respect to the ceded A&E business, NICO has been given authority to handle claims, subject to the Company’s oversight and control. With respect to the ceded workers compensation business, the Company will continue to handle claims.

In general terms, the covered business includes post December 31, 2013 development on: (1) A&E liabilities arising under policies of insurance and reinsurance with effective dates prior to January 1, 2005; and (2) WC liabilities arising out of policies on the books of the Company’s Commercial Insurance Strategic Business Unit as of December 31, 2013, as respects injuries or accidents occurring prior to January 1, 2014.

The following table displays the impact of the NICO Reinsurance Transaction subsequent to the transaction date on the accompanying consolidated statements of operations:

	<b>Nine Months Ended September 30, 2015</b>	<b>Twelve Months Ended December 31, 2014</b>
Amounts ceded under NICO Reinsurance Transaction		
Unrecognized reinsurance benefit related to original transaction loss at the beginning of the period	\$43	\$128
A&E unfavorable loss development	3	111
WC favorable loss development	(11)	(26)
Total amounts ceded under NICO Reinsurance Transaction	(8)	85
Retroactive reinsurance reductions/(benefits) recognized into income	8	(85)
Pre-tax impact of unrecognized deferred retroactive reinsurance benefit	-	-
Unrecognized reinsurance benefit related to original transaction loss at the end of the period	\$51	\$43

Once the aggregate of WC and A&E development exceeds the original pre-tax loss of \$128, deferred gains will be recorded. Deferred gains are subsequently amortized into earnings over the period when underlying claims are settled.

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. A significant portion of the consideration was retained on a “funds held” basis and interest is credited on the balance at an average rate of 8.5% annually. Under the contract, 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 above aggregate stop loss program resulted in deferred gains that are amortized into income using the effective interest method over the estimated settlement period. As of September 30, 2015 and December 31, 2014, deferred gains were \$7 and \$8, 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, 2015 was \$0 and \$1, respectively, as compared to \$1 and \$2 for the three and nine months ended September 30, 2014, respectively. Deferred gain amortization was \$0 and \$1 for the three and nine months ended September 30, 2015, respectively, as compared to \$1 and \$2 for the three and nine months ended September 30, 2014, respectively. Reinsurance recoverables related to these transactions, including experience related profit accruals, were \$59 and \$64 as of September 30, 2015 and December 31, 2014, respectively.



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**(5) DEBT OUTSTANDING**

Debt outstanding as of September 30, 2015 and December 31, 2014 includes the following:

<i>Current maturities of long-term debt:</i>	<b>As of September 30, 2015</b>	<b>As of December 31, 2014</b>
Current maturities of long-term debt	\$249	\$ -
Total current maturities of long-term debt	<u>\$249</u>	<u>\$ -</u>
 <i>Long-term debt:</i>		
	<b>2015</b>	<b>2014</b>
6.70% Notes, due 2016	\$ -	\$249
7.00% Junior Subordinated Notes, due 2067 <sup>(1)</sup>	300	300
5.00% Notes, due 2021	600	600
4.95% Notes, due 2022	750	750
4.25% Notes, due 2023	1,000	1,000
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 <sup>(2)</sup>	700	700
10.75% Junior Subordinated Notes, due 2088 <sup>(3)</sup>	193	196
6.50% Notes, due 2042	750	750
4.85% Notes, due 2044	1,050	1,050
7.697% Surplus Notes, due 2097	260	260
	<u>6,994</u>	<u>7,246</u>
Unamortized discount	(12)	(14)
Total long-term debt	<u>\$6,982</u>	<u>\$7,232</u>

<sup>(1)</sup> The par value call date and final fixed rate interest payment date is March 15, 2017, subject to certain requirements.

<sup>(2)</sup> The par value call date and final fixed rate interest payment date is March 15, 2037, subject to certain requirements.

<sup>(3)</sup> 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 nine months ended September 30, 2015, the Company repurchased \$3 of the 10.75% Junior Subordinated notes due 2088 compared to repurchases of \$51 in 2014. Pre-tax losses of \$1 were recorded on these transactions for nine months ended September 30, 2015 compared to pre-tax losses of \$29 in 2014 and are included in loss on extinguishment of debt in the accompanying consolidated statements of operations.

Effective July 2, 2015, LMIC renewed its \$1 billion repurchase agreement for a two-year period which terminates July 3, 2017 unless extended. To date, no funds have been borrowed under the facility.

The Company places commercial paper through a program issued by Liberty Mutual Group Inc. ("LMGI") and guaranteed by LMIC. On April 8, 2015, LMGI increased its commercial paper program from \$750 to \$1,000. As of September 30, 2015, there was no commercial paper outstanding.

On March 5, 2015, LMGI amended and restated its unsecured revolving credit facility from \$750 to \$1,000 with an expiration date of March 5, 2020. This facility backs the Company's commercial paper program. To date, no funds have been borrowed under the facility.

On December 31, 2014, Berkeley/St. James Real Estate LLC paid off its five-year mortgage loan in the amount of \$47. The mortgage loan was originally \$50 with a maturity date of January 1, 2015.

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On July 24, 2014 and October 31, 2014, LMGI issued \$750 and \$300 of Senior Notes due 2044 (the "2044 Notes"), respectively. Interest is payable semi-annually at a fixed rate of 4.85%. The 2044 Notes mature on August 1, 2044.

On December 20, 2012, LMIC entered into a three-year \$1,000 repurchase agreement which terminates on December 20, 2015. As of September 30, 2015, there are no borrowings outstanding on the facility.

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, 2015, 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.

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.

#### **(6) ASBESTOS AND ENVIRONMENTAL**

The Company's asbestos and environmental reserves for unpaid claims and claim adjustment expenses, net of reinsurance before the NICO Reinsurance Transaction and including uncollectible reinsurance, were \$993 and \$1,225 as of September 30, 2015 and December 31, 2014, respectively.

In the third quarter of 2015, the Company completed a review of asbestos, environmental and MTT unpaid loss and ALAE claim liabilities. The review resulted in no change to reserves as they make a reasonable provision for all unpaid losses and loss adjustment expenses.

In the third quarter of 2014, 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 \$111 including: \$83 of asbestos reserves, primarily associated with increased defense costs; and \$28 of pollution reserves (See "Note (4) Reinsurance" for impact of NICO Reinsurance Transaction).

#### **(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.

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The Company's effective tax rate on continuing operations differs from the U.S. Federal statutory rate of 35% principally due to tax-exempt investment income partially offset by non-U.S. operations. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Balance as of December 31, 2014	\$182
Additions based on tax positions related to current year	4
Reductions based on tax positions related to the current year	(2)
Additions for tax positions of prior years	26
Reductions for tax positions of prior years	(38)
Settlements	(1)
Translation	(11)
Balance as of September 30, 2015	\$160

Included in the tabular roll forward of unrecognized tax benefits are interest and penalties in the amount of \$52 and \$51 as of September 30, 2015 and December 31, 2014, respectively.

Included in the balance at September 30, 2015 is \$82 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, 2015 and 2014, the Company recognized \$2 and \$(43) of interest and penalties, respectively. For the nine months ended September 30, 2015 and 2014, the Company recognized \$3 and \$(35) of interest and penalties, respectively. The Company had \$64 and \$59 of interest and penalties accrued as of September 30, 2015 and December 31, 2014, respectively.

The IRS has completed its review of the Company's United States Federal income tax returns through the 2005 tax year and is currently reviewing income tax returns for the 2006 through 2011 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.

The Company believes that the range of reasonably possible changes to the balance of unrecognized tax benefits could decrease by \$0 to \$50 within the next twelve months as a result of potential settlements with the IRS for prior years.

**(8) BENEFIT PLANS**

The net benefit costs for the three months ended September 30, 2015 and 2014, include the following components:

Three months ended September 30,	Pension Benefits		Supplemental Pension Benefits <sup>(1)</sup>		Postretirement Benefits	
	2015	2014	2015	2014	2015	2014
Components of net periodic benefit costs:						
Service costs	\$34	\$27	\$1	\$-	\$5	\$4
Interest costs	85	77	4	5	10	10
Expected return on plan assets	(107)	(96)	-	-	-	-
Amortization of unrecognized:						
Net loss	49	19	6	4	1	-
Prior service cost	(1)	(1)	-	-	(3)	(3)
Net periodic benefit costs	\$60	\$26	\$11	\$9	\$13	\$11

<sup>(1)</sup> 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.

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The net benefit costs for the nine months ended September 30, 2015 and 2014, include the following components:

Nine months ended September 30,	Pension Benefits		Supplemental Pension Benefits <sup>(1)</sup>		Postretirement Benefits	
			2015	2014	2015	2014
Components of net periodic benefit costs:						
Service costs	\$100	\$78	\$3	\$2	\$15	\$13
Interest costs	255	234	14	14	29	30
Expected return on plan assets	(321)	(289)	-	-	-	-
Amortization of unrecognized:						
Net loss (gain)	149	57	17	12	3	(1)
Prior service cost	(2)	(2)	(1)	(1)	(8)	(8)
<b>Net periodic benefit costs</b>	<b>\$181</b>	<b>\$78</b>	<b>\$33</b>	<b>\$27</b>	<b>\$39</b>	<b>\$34</b>

<sup>(1)</sup> 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 \$313 to the qualified plans as of September 30, 2015 and expects to additionally contribute approximately \$1.

**(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

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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 primarily classified within Level 2.

#### **Mortgage-Backed Securities**

The Company's portfolio of residential and commercial MBS is 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 is comprised of 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, binding 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 include bonds issued or guaranteed by foreign governments. 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, binding broker quotes, issuer ratings, reported trades of identical or comparable securities and credit spreads.

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Accordingly, the fair value of foreign government 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.

#### 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 primarily 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.

#### Short-Term Investments

The fair value of short-term investments 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 short-term investments is primarily classified within Level 2 of the fair value hierarchy.

#### Other Investments

Other investments include primarily foreign cash deposits and equity investments in privately held businesses. 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.

#### Other Assets and Other Liabilities

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.

Additionally, other assets and other liabilities classified within Level 2 represent the Company's derivatives 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.

#### 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.

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The following tables summarize the Company's assets and liabilities that are measured at fair value on a recurring basis as of September 30, 2015 and December 31, 2014:

	As of September 30, 2015			
	Level 1	Level 2	Level 3	Total
<b>Assets, at Fair Value</b>				
U.S. government and agency securities	\$2,328	\$685	\$21	\$3,034
Residential MBS	-	7,586	5	7,591
Commercial MBS	-	1,641	61	1,702
Other MBS and ABS	-	3,094	134	3,228
U.S. state and municipal	-	13,555	242	13,797
Corporate and other	-	29,380	306	29,686
Foreign government securities	-	4,245	10	4,255
Total fixed maturities, available for sale	2,328	60,186	779	63,293
Common stock	2,399	-	43	2,442
Preferred stock	-	332	2	334
Total equity securities, available for sale	2,399	332	45	2,776
Short-term investments	-	274	-	274
Other investments	-	132	485	617
Separate account assets	31	-	67	98
Other assets	5	32	29	66
Total assets	\$4,763	\$60,956	\$1,405	\$67,124
<b>Liabilities, at Fair Value</b>				
Life insurance obligations	\$ -	\$ -	\$(174)	\$(174)
Other liabilities	-	(37)	-	(37)
Total liabilities	\$ -	\$(37)	\$(174)	\$(211)

	As of December 31, 2014			
	Level 1	Level 2	Level 3	Total
<b>Assets, at Fair Value</b>				
U.S. government and agency securities	\$2,373	\$730	\$22	\$3,125
Residential MBS	-	8,177	1	8,178
Commercial MBS	-	1,426	84	1,510
Other MBS and ABS	-	2,847	70	2,917
U.S. state and municipal	-	13,788	176	13,964
Corporate and other	-	28,243	251	28,494
Foreign government securities	-	4,977	11	4,988
Total fixed maturities, available for sale	2,373	60,188	615	63,176
Common stock	2,746	-	44	2,790
Preferred stock	-	353	2	355
Total equity securities, available for sale	2,746	353	46	3,145
Short-term investments	-	625	1	626
Other investments	-	122	440	562
Separate account assets	40	-	60	100
Other assets	5	26	27	58
Total assets	\$5,164	\$61,314	\$1,189	\$67,667
<b>Liabilities, at Fair Value</b>				
Life insurance obligations	\$ -	\$ -	\$(163)	\$(163)
Other liabilities	-	(22)	-	(22)
Total liabilities	\$ -	\$(22)	\$(163)	\$(185)

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The Company did not have significant transfers between Levels 1 and 2 for the nine months ended September 30, 2015.

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, 2015	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, 2015
<b>Assets, at Fair Value</b>									
U.S. government and agency securities	\$22	\$ -	\$(1)	\$ -	\$ -	\$ -	\$ -	\$ -	\$21
Residential MBS	1	-	1	156	-	-	-	(153)	5
Commercial MBS	84	-	2	22	-	(28)	-	(19)	61
Other MBS and ABS	70	-	(2)	100	-	(3)	-	(31)	134
U.S. state and municipal	176	-	(8)	119	-	(4)	11	(52)	242
Corporate and other	251	-	(3)	79	-	(20)	6	(7)	306
Foreign government securities	11	(1)	-	1	-	(1)	-	-	10
Total fixed maturities	615	(1)	(11)	477	-	(56)	17	(262)	779
Common stock	44	-	(4)	21	-	(8)	1	(11)	43
Preferred stock	2	-	-	-	-	-	-	-	2
Total equity securities	46	-	(4)	21	-	(8)	1	(11)	45
Short-term investments	1	-	-	-	-	(1)	-	-	-
Other investments	440	-	24	26	-	(5)	-	-	485
Separate account assets	60	-	-	-	-	-	7	-	67
Other assets	27	4	-	(2)	-	-	-	-	29
Total assets	\$1,189	\$3	\$9	\$522	\$ -	\$(70)	\$25	\$(273)	\$1,405

**Liabilities, at Fair Value**

Life insurance obligations	\$(163)	\$(20)	\$ -	\$9	\$ -	\$ -	\$ -	\$ -	\$(174)
Total liabilities	\$(163)	\$(20)	\$ -	\$9	\$ -	\$ -	\$ -	\$ -	\$(174)

	Balance January 1, 2014	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, 2014
<b>Assets, at Fair Value</b>									
U.S. government and agency securities	\$24	\$ -	\$ -	\$ -	\$ -	\$(2)	\$ -	\$ -	\$22
Residential MBS	11	-	1	38	-	-	-	(49)	1
Commercial MBS	98	-	6	67	-	(2)	24	(109)	84
Other MBS and ABS	30	-	1	128	-	(3)	-	(86)	70
U.S. state and municipal	124	-	16	54	-	(4)	27	(41)	176
Corporate and other	398	3	-	86	-	(172)	5	(69)	251
Foreign government securities	3	1	(1)	10	-	(2)	11	(11)	11
Total fixed maturities	688	4	23	383	-	(185)	67	(365)	615
Common stock	45	-	(1)	6	-	(1)	1	(6)	44
Preferred stock	2	-	-	-	-	-	-	-	2
Total equity securities	47	-	(1)	6	-	(1)	1	(6)	46
Short-term investments	5	-	-	2	-	(5)	-	(1)	1
Other investments	316	(8)	18	14	-	(8)	329	(221)	440
Separate account assets	68	4	-	-	-	(12)	-	-	60
Other assets	19	10	-	(2)	-	-	-	-	27
Total assets	\$1,143	\$10	\$40	\$403	\$ -	\$(211)	\$397	\$(593)	\$1,189

**Liabilities, at Fair Value**

Life insurance obligations	\$(122)	\$(55)	\$ -	\$14	\$ -	\$ -	\$ -	\$ -	\$(163)
Total liabilities	\$(122)	\$(55)	\$ -	\$14	\$ -	\$ -	\$ -	\$ -	\$(163)



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Transfers into and out of Level 3 were primarily due to changes in 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, 2015.

For the nine months ended September 30, 2015, there were impairments of \$73 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. (“Kentile”), 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 and all other insurance carriers.

Prior to the most recent bankruptcy filing, Metex reached agreement with each of Kentile’s insurance carriers. The bankruptcy court approved the Settlement and the Metex bankruptcy became effective in the fall of 2014. A payment in the amount of \$34 was made to the Trust in October 2014. A final payment in the amount of \$25 is due on October 1, 2017. The Company anticipates closing this matter immediately after making the final payment.

As of September 30, 2015, the Company had unfunded commitments in traditional private equity partnerships, natural resources, real estate, and other of \$1,334, \$2,564 (\$2,535 of which is related to energy investments), \$460, and \$1,089, respectively.

As of September 30, 2015, the Company had commitments to purchase various residential MBS at a cost and fair value of \$124, and various corporate and municipal securities at a cost of \$198 and fair value of \$199.

#### **(11) SUBSEQUENT EVENTS**

On November 29, 2015, the Company through its affiliate entered into a stock purchase agreement for the sale of the Venezuelan operations. The transaction is subject to certain conditions and the receipt of appropriate regulatory approvals.

On December 2, 2015, the Company received regulatory approval for the Compañía de Seguros Generales Penta Security S.A., acquisition in Chile. The transaction still remains subject to certain closing conditions. (See Note 2 for further discussion.)

Management has assessed material subsequent events through December 9, 2015, the date the financial statements were available to be issued.