LIBERTY MUTUAL INSURANCE

- Liberty Mutual Insurance is a U.S. headquartered, diversified global insurer. Liberty is the fifth largest property and casualty insurer worldwide, the third largest property and casualty insurer in the U.S., and ranks 84th on the Fortune 100 list of largest corporations in the U.S. based on 2012 revenue.
- Like other property-casualty insurers, Liberty's profitability is cyclical and highly impacted by catastrophes ($1.3B, $2.7B, and $1.9B catastrophe losses incurred in 2010, 2011, and 2012, respectively).
- In foreign countries where Liberty operates, business operations and investments are not fungible. Regulators impose numerous requirements that include:
    - Assets must be invested in local issuances (e.g. bonds), generally in Latin and South America
    - Departments that manage insurance information (e.g. Claims, Underwriting) must be staffed by local management and local employees (Latin and South America, Poland)
    - Maintenance of books and records must be local, typically required in local language
    - Solvency II (EU Directive that harmonizes EU insurance regulation, similar to Basel II for banking) is designed to ensure that EU insurers have sufficient capital to reduce risk of insolvency. Once in effect, it is likely to result in more stringent capital requirements for insurers doing business in Europe.
- To the extent permitted by local regulations, Liberty manages and/or supports foreign operations through centralized U.S. functions and employees (e.g. stewardship, investment management, IT).
- Liberty negotiates short-term debt and issues long-term debt in the U.S. through Liberty's U.S. holding company (or its U.S. insurance companies).
- Liberty's foreign revenue has grown from $2.1B in 2001 to $8.6B in 2011 (14.9% 10-year combined annual growth rate (CAGR)). Consolidated global revenue has grown from $14B in 2001 to $34.7B in 2011 (9.5% 10-year CAGR).

CURRENT INTERNATIONAL TAX REGIME – WORLDWIDE TAXATION

- The U.S. is one of the few countries to tax worldwide income. The U.S. statutory tax rate is also the highest among OECD countries. Both deferral provisions and foreign tax credit provisions minimize the impact of double taxation on U.S. corporations doing business overseas.
- The current Active Finance Exception ("AFE") is critical to maintaining a level playing field with other non-U.S. insurers doing business in foreign countries. Investment income and invested assets

sufficient to cover future insurance payments for both known claims and unknown contingencies are required by local regulators to be maintained in the host country. Absent AFE, U.S. taxation of foreign active finance income results in an additional tax cost and competitive disadvantage for U.S.-based multinationals.

  - Temporary status of AFE results in financial and business uncertainty. U.S. tax costs that cannot be forecast result in potentially volatile profitability and returns on foreign investments. Due to application of accounting rules, retroactive extension resulted in one-time financial statement loss in 2012 to be offset by impact of extension in 2013.

- The current Look-Thru provisions are critical to enabling U.S. corporations to redeploy capital overseas (foreign to foreign) within the current worldwide taxation and deferral regimes. Insurance companies, unlike other industries, cannot avail themselves of "check the box" structuring opportunities. Absent the ability to redeploy capital from one foreign jurisdiction to another without incurring U.S. tax, U.S.-based insurers are at a competitive disadvantage with respect to funding foreign growth or acquisitions. Absent Look-Thru, funding foreign growth with U.S. capital becomes less costly than funding the same growth through existing overseas capital, further eroding funds available to invest in the U.S.
  - Temporary status of Look-Thru results in business uncertainty. The ability of insurers to remit foreign earnings to the U.S. is subject to local regulatory approval which may not be received in a timely manner.
- Historically, U.S. property and casualty insurers with significant U.S. losses (e.g. 9/11 losses, hurricanes, and other catastrophes) had lost use of foreign tax credits due to expiration, resulting in some level of double taxation. The increased foreign tax credit carry forward period (from 5 to 10 years) and the Overall Domestic Loss ("ODL") provisions (both enacted in 2004) have mitigated the potential for double taxation.

INTERNATIONAL TAX REFORM -- TERRITORIAL TAX REGIME

- Territorial tax regimes as proposed (2011 Camp Discussion Draft) generally include some level of double taxation through a proposed participation exemption of less than 100%, coupled with the elimination of the foreign tax credit regime. Any level of double taxation in excess of those imposed by other countries will result in a competitive disadvantage to U.S.-based insurers.
- Proposals may be silent on treatment of active financing income – leaving open the possibility that investment income of insurers earned overseas will be subject to tax in the U.S. (See discussion of AFE above.)

- Proposals typically have a transition tax that would be imposed on unrepatriated earnings as of a certain effective date, regardless of whether the earnings are available for dividend (or required to remain in the local country pursuant to insurance regulatory requirements). This would impose a material one-time U.S. tax cost on U.S.-based insurers with limited ability to repatriate the related foreign capital.
- Proposals may include limitations on the deductibility of interest on U.S. debt or other U.S. expenses that support foreign operations. The most cost-effective debt is typically negotiated at the parent organization (in the U.S. for U.S.-based global insurers), particularly for regulated insurers. A U.S. parent organization will also invest in U.S. jobs to centralize global functions or establish "centers of excellence" in the U.S. Disallowance of any financing or centralized functional expenses incurred in the U.S. will result in a competitive disadvantage for U.S. based insurers.