Liberty Mutual Holding Company Inc.

Fourth Quarter 2007

Consolidated Financial Statements

Liberty Mutual Holding Company Inc.

Consolidated Statements of Income

(dollars in millions)

(Unaudited)

	Years Ended December 31,		
	2007	2006	2005
Revenues			
Premiums earned	$ 21,887	$ 19,867	$ 17,631
Net investment income	2,885	2,548	2,247
Net realized investment gains	436	343	523
Fee and other revenues	753	762	760
Total revenues	25,961	23,520	21,161
Claims, Benefits and Expenses			
Benefits, claims and claim adjustment expenses	16,092	14,609	14,272
Insurance operating costs and expenses	3,856	3,425	2,912
Amortization of deferred policy acquisition costs	3,297	2,827	2,480
Interest expense	320	212	184
Interest credited to policyholders	198	189	183
Total claims, benefits and expenses	23,763	21,262	20,031
Income from continuing operations before income tax expense	2,198	2,258	1,130
Federal and foreign income tax expense	680	632	91
Income from continuing operations before discontinued operations	1,518	1,626	1,039
Discontinued operations, net of tax	-	-	(12)
Net income	$ 1,518	$ 1,626	$ 1,027

See accompanying notes to the unaudited consolidated financial statements.

Liberty Mutual Holding Company Inc.

Consolidated Balance Sheets

(dollars in millions)

(Unaudited)

	December 31, 2007	December 31, 2006
Assets:		
Investments		
Fixed maturities, available for sale, at fair value (amortized cost of $46,848 and $40,981)	$ 46,934	$ 41,102
Equity securities, available for sale, at fair value (cost of $2,418 and $1,664)	3,285	2,619
Trading securities, at fair value (cost of $16 and $14)	16	22
Other investments	2,348	1,646
Short-term investments	764	1,550
Mortgage loans	657	322
Total investments	54,004	47,261
Cash and cash equivalents	3,199	3,512
Premium and other receivables (net of allowance of $99 and $101)	6,491	6,075
Reinsurance recoverables (net of allowance of $331 and $315)	15,518	15,564
Deferred income taxes (net of valuation allowance of $117 and $101)	1,469	1,490
Deferred acquisition costs and acquired in-force policy intangibles	1,982	1,662
Goodwill and other intangible assets	2,292	907
Prepaid reinsurance premiums	1,180	1,230
Property, plant and equipment, net	1,781	1,660
Other assets	3,332	3,088
Separate account assets	3,431	3,049
Total assets	$ 94,679	$ 85,498
Liabilities:		
Unpaid claims and claim adjustment expenses and future policy benefits:		
Property and casualty	$ 42,992	$ 38,606
Life	6,063	5,591
Other policyholder funds and benefits payable	2,818	2,658
Unearned premiums	10,562	9,343
Funds held under reinsurance treaties	1,941	1,823
Short-term debt	91	171
Long-term debt	4,360	3,175
Other liabilities	10,055	10,187
Separate account liabilities	3,431	3,049
Total liabilities	82,313	74,603
Policyholders' equity:		
Unassigned equity	11,621	10,092
Accumulated other comprehensive income	745	803
Total policyholders' equity	12,366	10,895
Total liabilities and policyholders' equity	$ 94,679	$ 85,498

See accompanying notes to the unaudited consolidated financial statements.

Liberty Mutual Holding Company Inc.

Consolidated Statements of Changes in Policyholders' Equity

(dollars in millions)

(Unaudited)

	Unassigned Equity	Accumulated Other Comprehensive Income	Policyholders' Equity
Balance, January 1, 2005	$ 7,439	$ 1,258	$ 8,697
Comprehensive income			
Net income	1,027	-	1,027
Other comprehensive loss, net of taxes:			
Unrealized losses on securities	-	(171)	(171)
Less: reclassification adjustment for gains and losses included in net income	-	(340)	(340)
Minimum pension liability adjustment	-	(306)	(306)
Foreign currency translation adjustments	-	(49)	(49)
Other comprehensive loss, net of taxes	-	(866)	(866)
Total comprehensive income			161
Balance, December 31, 2005	$ 8,466	$ 392	$ 8,858
Comprehensive income			
Net income	1,626	-	1,626
Other comprehensive income, net of taxes:			
Unrealized gains on securities	-	211	211
Less: reclassification adjustment for gains			-
and losses included in net income	-	(223)	(223)
Minimum pension liability adjustment	-	312	312
Foreign currency translation adjustments	-	111	111
Other comprehensive income, net of taxes	-	411	411
Total comprehensive income			2,037
Balance, December 31, 2006	$ 10,092	$ 803	$ 10,895
Adjustment for adoption of FIN 48 (Note 1)	11		11
Comprehensive income			
Net income	1,518	-	1,518
Other comprehensive loss, net of taxes:			
Unrealized gains on securities	-	213	213
Less: reclassification adjustment for gains and losses included in net income	-	(283)	(283)
Minimum pension liability adjustment	-	23	23
Foreign currency translation adjustments	-	277	277
Other comprehensive income, net of taxes	-	230	230
Total comprehensive income			1,748
Adjustment for adoption of FAS 158 (Note 1)	-	(288)	(288)
Balance, December 31, 2007	$ 11,621	$ 745	$ 12,366

See accompanying notes to the unaudited consolidated financial statements.

Liberty Mutual Holding Company Inc.

Consolidated Statements of Cash Flows

(dollars in millions)

(Unaudited)

	Years Ended December 31, 2007	2006	2005
Cash flows from operating activities:			
Net income from continuing operations	$ 1,518	$ 1,626	$ 1,039
Adjustments to reconcile net income to net cash provided by operating activities, net of effects from purchases of companies:			
Depreciation and amortization	260	238	217
Realized investment gains	(436)	(343)	(523)
Undistributed private equity investment gains	(324)	(275)	(208)
Premium, other receivables, and reinsurance recoverables	781	669	(2,545)
Deferred policy acquisition costs	(122)	(154)	(144)
Liabilities for insurance reserves	2,151	1,865	5,153
Taxes payable, net of deferred	123	169	(195)
Other, net	91	100	912
Total adjustments	2,524	2,269	2,667
Net cash provided by operating activities	4,042	3,895	3,706
Cash flows from investing activities:			
Purchases of investments	(19,719)	(20,952)	(20,273)
Sales and maturities of investments	18,405	16,508	16,955
Property and equipment purchased, net	(259)	(762)	(306)
Payment for purchase of companies, net of cash acquired	(2,700)	(48)	(28)
Other investing activities	(403)	317	(143)
Net cash used in investing activities	(4,676)	(4,937)	(3,795)
Cash flows from financing activities:			
Net activity in policyholder accounts	34	69	20
Debt financing, net	889	646	373
Net security lending activity and other financing actitivites	(602)	684	297
Net cash provided by financing activities	321	1,399	690
Net cash used in discontinued operations, principally operating activities	-	-	(36)
Net (decrease) increase in cash and cash equivalents	(313)	357	565
Cash and cash equivalents, beginning of year	3,512	3,155	2,590
Cash and cash equivalents, end of year	$ 3,199	$ 3,512	$ 3,155
Supplemental disclosure of cash flow information:			
Income taxes paid	$ 563	$ 496	$ 264

See accompanying notes to the unaudited consolidated financial statements.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Liberty Mutual Holding Company Inc. and its subsidiaries (collectively "LMHC" or the "Company"). Certain reclassifications have been made to the 2006 and 2005 consolidated financial statements to conform with the 2007 presentation. All material intercompany transactions and balances have been eliminated.

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States ("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 losses and loss expense reserves, including asbestos and environmental reserves, (2) allowance for uncollectible reinsurance and policyholder receivables, (3) fair value determination and other than temporary impairments of the investment portfolio, (4) deferred acquisition costs, (5) the valuation of goodwill and intangible assets, and (6) valuation allowance on deferred taxes. While management believes that the amounts included in the consolidated financial statements reflect their best estimates and assumptions, these amounts ultimately could be materially different from the amounts currently provided for in the consolidated financial statements.

Adoption of New Accounting Standards

Effective December 31, 2007, the Company adopted Statement of Financial Accounting Standards No. 158, "*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an Amendment of FASB Statements No. 87, 88, 106 and 132(R)"* ("SFAS 158"). This statement requires the Company to (a) recognize the funded status of its pension, supplemental pension and postretirement benefit plans on the consolidated balance sheet as an asset or liability, measured as the difference between plan assets at fair value and the benefit obligation as of the employer's fiscal year end, with a corresponding adjustment to accumulated other comprehensive income (AOCI), net of tax; and to (b) recognize as a component of AOCI, net of tax, actuarial gains or losses or prior service cost or credit that arise during the period but are not recognized as a component of net periodic benefit cost. Consistent with the provisions of SFAS 158, these amounts will be subsequently recognized in the income statement pursuant to the Company's historical accounting policy for amortizing such amounts with a corresponding offset to AOCI. The provisions of SFAS 87 and SFAS 106 continue to apply in measuring plan assets and benefit obligations, as of the date of fiscal year-end statement of financial position, and in determining net periodic benefit cost. The provisions of SFAS 158 are not to be applied retrospectively. The adoption of SFAS 158 as of December 31, 2007 decreased other assets by $245, increased other liabilities by $198, increased deferred tax assets by $155, and decreased accumulated other comprehensive income, a component of policyholders' equity by $288, net of tax. Adoption of SFAS 158 did not affect the Company's result of operation or liquidity as SFAS 158 does not affect the determination of net periodic benefit costs.

Effective January 1, 2007, the Company adopted Statement of Financial Accounting Standards No. 155, "*Accounting for Certain Hybrid Financial Instruments - an Amendment of FASB Statements No. 133 and 140*" ("SFAS 155"). SFAS 155 nullifies the guidance in the FASB's Derivatives Implementation Group Issue D1 "*Application of Statement 133 to Beneficial Interests in Securitized Assets*", which had deferred the bifurcation requirements of Statement of Financial Accounting Standards No. 133, "*Accounting for Derivative Instruments and Hedging Activities*" ("SFAS 133"), for certain beneficial interests in securitized financial assets. SFAS 155 requires beneficial interests in securitized financial assets be analyzed to determine whether they are freestanding derivatives or hybrid instruments that contain an embedded derivative requiring bifurcation. SFAS 155 is effective for all financial instruments acquired, issued or subject to a re-measurement (new basis) event occurring after the beginning of an entity's fiscal year that begins after September 15, 2006. In January 2007, the FASB issued Derivative Implementation Group Issue No. B40, "*Embedded Derivatives Application of Paragraph 13(b) to Securitized Interests in Prepayable Financial Assets"* ("DIG B40"). DIG B40 provided limited exemption from bifurcation of embedded derivatives as required by paragraph 13(b) of SFAS 133. Management has concluded the exemption applies for the Company's investment in its mortgage backed securities, and as a result, SFAS 155 did not impact the Company's consolidated financial statements.

Effective January 1, 2007, the Company adopted the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants' ("AcSEC") Statement of Position No. 05-1, *"Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts"* ("SOP 05-1"). SOP 05-1 provides guidance on accounting by insurance enterprises for deferred acquisition costs on internal replacements of insurance and investment contracts other than those specifically described in FASB Statement No. 97, *"Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments"* ("SFAS 97"). As defined by SOP 05-1, an internal replacement is a modification in product benefits, features, rights, or coverage that occurs by exchange of a contract for a new contract, or by amendment, endorsement, rider, or by election of a feature or coverage within an existing contract. The adoption of SOP 05-1 did not impact the Company's consolidated financial statements.

Effective January 1, 2007, the Company adopted Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109*" ("FIN 48") issued by the FASB in June 2006. FIN 48 requires companies to recognize the tax benefits of uncertain tax positions only where the position is "more likely than not" to be sustained assuming examination by tax authorities. The amount recognized is the amount that represents the largest amount of tax benefit that is greater than 50% likely of being ultimately realized. A liability is recognized for any benefit claimed, or expected to be claimed, in a tax return in excess of the benefit recorded in the financial statements, along with any interest and penalty (if applicable) on the excess. FIN 48 requires a tabular reconciliation of the change in the aggregate unrecognized tax benefits claimed, or expected to be claimed, in tax returns and disclosure relating to accrued interest and penalties for unrecognized tax benefits. Discussion is also required for those uncertain tax positions where it is reasonably possible that the estimate of the tax benefit will change significantly in the next 12 months. As a result of the adoption, the Company recognized a decrease of approximately $11 in the liability for unrecognized tax benefits, which was accounted for as an increase to retained earnings.

As of the date of adoption of FIN 48, the total amount of unrecognized tax benefits was approximately $107, including approximately $85 related to tax positions that would impact the annual effective rate. The Company recognizes interest and penalties related to unrecognized tax benefits in Federal and foreign income tax expense and had approximately $39 accrued as of January 1, 2007. The Company has not had any material changes to the unrecognized benefits within the last 12 months since the adoption date.

The IRS is currently reviewing the Company's federal tax returns for the 1999 through 2005 tax years. Any adjustments that might result from the IRS examination of these income tax returns are not expected to have a material impact on the financial position, liquidity or results of operations of the Company.

(dollars in millions, except per share amounts)

Effective April 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123(R), "*Share-Based Payments"* ("SFAS 123(R)"). The Company has elected to continue to measure its awards at their intrinsic value. Compensation cost related to these plans is determined in accordance with plan formulas and recorded ratably over the years the employee service is provided. The adoption of SFAS 123(R) did not impact the Company's consolidated financial statements.

Effective January 1, 2006, the Company adopted Financial Accounting Standards Board (FASB) Statement of Position No. FAS 115-1 and FAS 124-1, "*Meaning of Other-Than-Temporary Impairments and Its Application to Certain Investments,"* which provides guidance on determining whether investment impairment is other-than-temporary regardless of the intent to sell and when a security is impaired due to fluctuations in interest rates. The adoption of the statement did not have a material impact on the Company's consolidated financial statements.

Future Adoption of New Accounting Standards

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "*Fair Value Measurements*" ("SFAS 157"). This statement defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States, and enhances disclosures about fair value measurements. SFAS 157 provides guidance on how to measure fair value when required under existing accounting standards. The statement establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels ("Level 1, 2 and 3"). Level 1 inputs are observable inputs that reflect quoted prices for identical assets or liabilities in active markets the Company has the ability to access at the measurement date. Level 2 inputs are observable inputs, other than quoted prices included in Level 1, for the asset or liability. Level 3 inputs are unobservable inputs reflecting the reporting entity's estimates of the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). Quantitative and qualitative disclosures will focus on the inputs used to measure fair value for both recurring and non-recurring fair value measurements and the effects of the measurements in the financial statements. The Company is required to adopt SFAS 157 effective January 1, 2008. The Company is evaluating the impact of adoption, but does not expect the provisions of SFAS 157 to have a material effect on its results of operations, financial condition or liquidity.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of SFAS 115*" ("SFAS 159"). SFAS 159 permits all entities to choose, at specified election dates, to measure eligible items at fair value (the "fair value option"). An entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date eliminating complex hedge accounting provisions. The decision about whether to elect the fair value option is applied on an instrument by instrument basis and is irrevocable unless a new election date occurs and is applied only to an entire instrument. SFAS 159 also provides guidance on disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective for the Company January 1, 2008. The Company does not expect the provisions of SFAS 159 to have a material effect on its results of operations, financial condition, or liquidity.

In September 2006, the Emerging Issues Task Force (EITF) released issue No. 06-4, "*Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements"* ("EITF 06-4"). This issue provides guidance on the recognition and measurement of assets related to collateral assignment split-dollar life insurance arrangements. EITF 06-4 is effective for fiscal years beginning after December 15, 2007. The Company will adopt EITF 06-04 on January 1, 2008. The Company does not expect the provisions of EITF 06-4 to have a material effect on its results of operations, financial condition, or liquidity.

In March 2007, the EITF released issue No. 06-10, "*Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements* ("EITF 06-10"). This issue requires a company to recognize a liability for future life insurance benefits in accordance with SFAS 106 or Opinion 12. EITF 06-10 is effective for the Company for fiscal years beginning after December 15, 2007. The Company will adopt EITF 06-10 on January 1, 2008, and is evaluating the impact of adoption, but does not expect the provisions of EITF 06-10 to have a material effect on its results of operations, financial condition or liquidity.

In December 2007, the FASB issued SFAS No. 160, "*Accounting for Noncontrolling Interests" ("SFAS 160").* SFAS 160 will result in the consolidation of all non-controlling interests within the income statement and balance sheet of the Company for all consolidated subsidiaries. SFAS 160 is required to be adopted on January 1, 2009. Prospective adoption is required, except for the required reclasses which are to be applied retrospectively. Early adoption is not permitted. The Company is in the process of evaluating the impact of adoption.

In December 2007, the FASB issued SFAS No. 141(R), "*Applying the Acquisition Method"* ("SFAS 141(R)"). This issue will result in significant changes to accounting for business combinations. Prospective adoption is required and early adoption is not permitted. The Company is required to adopt SFAS 141(R) effective January 1, 2009. The Company is in the process of evaluating the impact of adoption.

Accumulated Other Comprehensive Income

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

The components of accumulated other comprehensive income, net of related deferred acquisition costs and taxes, for the years ending December 31, 2007, 2006, and 2005 are as follows:

	2007	**2006**	**2005**
Unrealized gains on securities	$574	$644	$656
Foreign currency translation adjustments and other	456	179	68
Minimum pension liability adjustment	(285)	(20)	(332)
Accumulated other comprehensive income	$745	$803	$392

(2) ACQUISITIONS AND GOODWILL

Ohio Casualty Corporation

On August 24, 2007 Liberty Mutual Group completed the acquisition of the Ohio Casualty Corporation ("Ohio Casualty"). Pursuant to the terms of the purchase agreement, the Company paid cash of $44.00 per share in exchange for all outstanding shares of the Ohio Casualty common stock for a total purchase price of $2,784. The results of operations for the acquired business are included in the financial statements subsequent to August 24, 2007. Net income for Ohio Casualty subsequent to acquisition was $57. The operations of Ohio Casualty merged into the Agency Markets strategic business unit. The Company believes that this acquisition will significantly strengthen Agency Markets' regional company independent agency business and enhance its relationship with its independent agents. Agency Markets is now the largest regional provider of property and casualty products distributed through independent agents in the United States.

The total purchase price was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. The excess of the purchase price over the aggregate fair values was recorded as goodwill. The fair value assigned to identifiable intangible assets acquired was primarily determined using the income approach, which discounts expected cash flows to present value using estimates and assumptions determined by management. The Company is in the process of finalizing the fair value of the acquired business and related restructuring efforts; therefore, the allocation of the purchase price is subject to refinement.

Preliminary goodwill and intangible assets (including acquired in-force policy intangibles) recognized from the transaction was $1,479.

Şeker Sigorta A.Ş

On September 5, 2006, and during the course of the fourth quarter of 2006, the Company, through its Spanish subsidiary, Liberty Seguros Compania de Seguros y Reaseguros S.A. ("Liberty Seguros"), acquired 90.425% of Şeker Sigorta A.Ş., a mid-sized insurer located in Istanbul, Turkey. Goodwill recognized from the transaction was $102. The results of operations for the acquired business, which are not material, are included in the financial statements subsequent to September 2006.

(3) REINSURANCE

The Company is party to retroactive reinsurance arrangements where a significant portion of the consideration was retained on a "funds held" basis and interest is credited on the balance at a weighted average rate of approximately 7.7% annually. These contracts resulted in deferred gains (including experience related profit accruals of $195) that are amortized into income using the effective interest method over the estimated settlement periods. At December 31, 2007, and 2006, deferred gains related to these reinsurance arrangements were $786 and $839, respectively, and are included in other liabilities within the consolidated balance sheets. Interest credited to the funds held balances for the years ended December 31, 2007, 2006, and 2005 was $116, $125, and $113, respectively. Deferred gain amortization was $57, $95, and $89 for the years ended December 31, 2007, 2006, and 2005, respectively. Reinsurance recoverables related to these transactions including experience related profit accruals were $2,222 and $2,258 as of December 31, 2007, and 2006, respectively.

Additionally, the Company has an aggregate stop loss program covering substantially all of Commercial Markets voluntary workers compensation business from the fourth quarter 2000 through the fourth quarter 2002 accident year periods. Under these contracts, losses in excess of a specified loss ratio are reinsured up to a maximum loss ratio and were accounted for as prospective reinsurance at inception. However, due to a material contract change at the January 1, 2002, renewal, any premium and loss activity subsequent to December 31, 2001, is accounted for as retroactive reinsurance for coverage provided from the fourth quarter 2000 through the fourth quarter 2001 covered accident year periods. The retroactive portion of the aggregate stop loss program is included in the preceding paragraph. Approximately $(2) and $1 of additional (gains) losses were ceded to these retroactive and prospective contracts, respectively, during the year ended December 31, 2007, with additional premium of $1 and $1, respectively. Approximately $45 and $32 of additional losses were ceded to these retroactive and prospective contracts, respectively, during the year ended December 31, 2006, with additional premium of $29 and $23, respectively. Approximately $38 and $31 of additional losses were ceded to these retroactive and prospective contracts, respectively, during the year ended December 31, 2005, with additional premium of $24 and $22, respectively. The income statement impact of ceding the additional losses and premium on the fourth quarter 2000 through fourth quarter 2001 covered accident year periods was deferred for GAAP purposes and is amortized into income using the effective interest method over the estimated settlement period.

In 2006, Liberty Mutual Insurance Company ("LMIC") entered into multi-year property catastrophe reinsurance agreements with Mystic Re Ltd. ("Mystic Re"), a Cayman Islands domiciled reinsurer, to provide $525 of additional reinsurance coverage for LMIC and its affiliates in the event of a Northeast hurricane. The reinsurance agreements are fully collateralized by proceeds received by Mystic Re from the issuance of catastrophe bonds and provide coverage for hurricane-related losses from Washington, D.C., to Maine based on industry insured losses as reported by Property Claim Services. In 2007, LMIC supplemented this reinsurance in a similar transaction with Mystic Re II Ltd. ("Mystic Re II") a Cayman Islands domiciled reinsurer, to provide $150 of additional reinsurance coverage for LMIC and its affiliates in the event of a Northeast and/or Florida hurricane event. The Company has not recorded any recoveries under these programs. Neither Mystic Re nor Mystic Re II has any other reinsurance in force. Mystic Re and Mystic Re II are VIEs for which the Company is deemed not to be the primary beneficiary.

(dollars in millions, except per share amounts)

(4) DEBT OUTSTANDING

Debt outstanding at December 31, 2007, and 2006, includes the following:

Short-term debt:

	2007	2006
Commercial paper	$ -	$ -
Revolving credit facilities	70	50
Current maturities of long-term debt	21	121
Total short-term debt	$ 91	$171

Long-term debt:

	2007	2006
6.75% Notes, due 2008	$ -	$ 15
5.00% Notes, due 2008	-	4
8.00% Notes, due 2013	260	260
5.75% Notes, due 2014	500	500
7.30% Notes, due 2014[1]	200	-
6.70% Notes, due 2016	250	250
7.00% Subordinated Notes, due 2067[2]	300	-
8.50% Surplus Notes, due 2025	150	150
7.875% Surplus Notes, due 2026	250	250
7.63% Notes, due 2028	3	3
7.00% Notes, due 2034	250	250
6.50% Notes, due 2035	500	500
7.50% Notes, due 2036	500	500
7.80% Subordinated Notes, due 2087[3]	700	-
7.697% Surplus Notes, due 2097	500	500
7.10% - 7.86% Medium Term Notes, with various maturities	25	27
	4,388	3,209
Unamortized discount[4]	(28)	(34)
Total long-term debt excluding current maturities	$4,360	$3,175

[1] Assumed as part of Ohio Casualty acquisition on August 24, 2007.
[2] The par value call date and final fixed rate interest payment date is March 15, 2017, subject to certain requirements
[3] The par value call date and final fixed rate interest payment date is March 15, 2037, subject to certain requirements
[4] Reflects purchase accounting adjustment of $7 related to the $200 Ohio Casualty Notes due in 2014.

Short-term Debt

The Company issues commercial paper to meet short-term operating needs. The total facility was $1,000 at December 31, 2007, and $600 at December 31, 2006, and is supported by a $750 line of credit facility. Commercial paper issued and outstanding at December 31, 2007, and 2006, was $0.

On April 5, 2007, Liberty Mutual Group Inc. (“LMGI”) entered into a $250 3-year unsecured revolving credit facility for general corporate purposes. No funds have been borrowed to date under the facility.

On May 4, 2007, LMIC redeemed its $121 8.20% Surplus Note at maturity.

Long-term Debt

On August 24, 2007, the Company assumed $200 of 7.30% Notes due 2014 as a result of the Ohio Casualty acquisition (the “OCAS Notes”). The fair value of the OCAS Notes as established as a result of Ohio Casualty purchase accounting is $207 and is reflected in the Consolidated Balance Sheets.

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.

At December 31, 2007, all of the long-term borrowings mature after 2011.

On March 7, 2007, LMGI issued junior subordinated notes (the "Notes") with a face amount of $1,000, consisting of $700 Series A junior subordinated notes (the "Series A Notes") and $300 Series B junior subordinated notes (the "Series B Notes"). The Notes are scheduled for redemption on March 15, 2037; the final maturity of the Series A Notes is March 7, 2087; and the final maturity of the Series B Notes is March 7, 2067. LMGI may redeem (a) the Series B Notes in whole or in part, on March 15, 2017, and on each interest payment date thereafter at their principal amount plus accrued and unpaid interest to the date of redemption, or (b) prior to March 15, 2037, for the Series A Notes or March 15, 2017, for the Series B Notes, (i) in whole or in part at any time at their principal amount or, if greater, a make-whole price, or (ii) in certain circumstances, in whole at their principal amount plus accrued and unpaid interest to the date of redemption or, if greater, a special event make-whole price. Interest is payable semi-annually at a fixed rate of 7.800% for the Series A Notes and 7.000% for the Series B Notes up to, but excluding, the final fixed rate interest payment date. In the event the Notes are not redeemed on or before the final fixed rate interest payment date, interest will accrue at an annual rate of three-month LIBOR plus 3.576% for the Series A Notes and three-month LIBOR plus 2.905% for the Series B Notes, payable quarterly in arrears. LMGI has the right to defer interest payments on the Notes for a period up to ten years. Interest compounds during periods of deferral. In connection with the issuance of the Notes, LMGI entered into a Replacement Capital Covenant ("RCC"). As part of the RCC, LMGI agreed that it will not repay, redeem, defease or purchase the Notes on or before the relevant RCC termination date unless, subject to certain limitations, it has received proceeds from the sale of specified capital securities. The RCC will terminate upon the occurrence of certain events, including an acceleration of the Notes, and may not be enforced by the holders of the Series A Notes or the Series B Notes. The RCC is for the benefit of holders of the specified series of LMGI's indebtedness (initially LMGI's 7.50% senior notes due 2036).

(dollars in millions, except per share amounts)

(5) BENEFIT PLANS

The net benefit costs for the years ended December 31, 2007, 2006, and 2005 include the following components:

Years ended December 31,	Pension Benefits			Supplemental Pension Benefits *			Postretirement Benefits		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
Components of net periodic benefit costs									
Service costs	$148	$ 154	$ 127	$8	$ 10	$ 9	$19	$19	$ 14
Interest costs	213	184	173	13	13	13	31	28	27
Expected return on plan assets	(231)	(199)	(201)	-	-	-	(1)	(2)	(1)
Settlement charge	-	(2)	-	-	-	-	-	-	-
Amortization of unrecognized:									
Net loss	36	59	18	4	8	6	-	-	(1)
Prior service cost	4	1	3	3	2	2	(3)	(3)	(3)
Net transition (assets) obligation	(5)	(6)	(5)	-	-	-	9	9	10
Net periodic benefit costs	$165	$ 191	$115	$28	$ 33	$30	$55	$51	$46

* The Company sponsors supplemental retirement plans to provide pension benefits above the levels provided by the pension plans without regard to the statutory earnings limitations of qualified defined benefit pension plans. The supplemental plans are unfunded.

The 2007 benefit costs include provisions for the Ohio Casualty benefit plans assumed on August 24, 2007.

(6) 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 various insurance coverage disputes with Armstrong World Industries (“Armstrong”) for over twenty years relating to asbestos liabilities and insurance covering the period of 1973 to 1981. In July 2004, the Company prevailed in a favorable arbitration ruling before an appellate panel regarding Armstrong's available insurance coverage. Armstrong has filed, in the United States District Court for the Eastern District of Pennsylvania, a motion to vacate the 2004 appellate arbitration award that was favorable to the Company. The Company has filed a cross-motion seeking to confirm the award. Both motions have been briefed and remain pending at this time. Armstrong also filed a Chapter 11 Bankruptcy petition in the United States Bankruptcy Court for the District of Delaware in December 2000. A plan of reorganization was confirmed in August 2006, and Armstrong formally emerged from bankruptcy as of October 2, 2006. A declaratory judgment action, filed against the Company by Armstrong in 2002, is also pending in the United States District Court for the Eastern District of Pennsylvania. In that action, Armstrong is seeking coverage for asbestos claims under insurance policies issued to it during the period of 1973 to 1981, including, but not limited to, damages and a declaration regarding the availability, applicability, and scope of alleged non-product coverage not subject to the aggregate limits of the policies. Armstrong contends that a significant portion of its asbestos liability arises from operations that would entitle Armstrong to insurance coverage under the disputed policies without regard to the aggregate limit of liability. The Pennsylvania coverage action is currently in the initial pleading stages and, while it has been inactive by agreement of the parties since 2002, the court recently reactivated the case at a Rule 16 Scheduling Conference on October 22, 2007. The Company intends to vigorously defend its position in all pending coverage litigation, including any argument that coverage issues were finally determined in the bankruptcy proceedings. Management believes that the ultimate liability, if any, to Armstrong will not be resolved for at least one year and very likely may not be known for several years. In the opinion of management, the outcome of these pending matters is difficult to predict and an adverse outcome could have a material adverse effect on the Company's business, financial condition, and results of operations.

At December 31, 2007, the Company had unfunded capital commitments to private equity, commercial mortgages, and energy investments of $2,305.

At December 31, 2007, the Company had commitments to purchase various mortgage-backed securities settling in 2008, at a cost of $29 with a fair value of $29, which are included as fixed maturities in the consolidated balance sheets.