Liberty Mutual Holding Company Inc.

First Quarter 2009

Consolidated Financial Statements

Liberty Mutual Holding Company Inc.

Consolidated Statements of Income

(dollars in millions)

(Unaudited)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Revenues		
Premiums earned	$ 6,882	$ 5,938
Net investment income	337	757
Fee and other revenues	181	202
Net realized losses	-	(12)
Net realized gains, excluding other-than-temporary impairment losses	119	-
Other-than-temporary impairment losses:		
Total other-than-temporary impairment losses (Note 1)	(146)	-
Portion of loss recognized in other comprehensive income	33	-
Net impairment losses recognized in earnings	(113)	-
Total revenues	7,406	6,885
Claims, Benefits and Expenses		
Benefits, claims and claim adjustment expenses	5,044	4,414
Insurance operating costs and expenses	995	945
Amortization of deferred policy acquisition costs	1,164	913
Interest expense	122	83
Interest credited to policyholders	44	50
Total claims, benefits and expenses	7,369	6,405
Income before income tax expense	37	480
Income tax expense	9	120
Net income	$ 28	$ 360

See accompanying notes to the unaudited consolidated financial statements.

Liberty Mutual Holding Company Inc.

Consolidated Balance Sheets

(dollars in millions)

(Unaudited)

		March 31, 2009		December 31, 2008
Assets:				
Investments				
Fixed maturities, available for sale, at fair value (amortized cost of $49,989 and $49,902)	$	48,444	$	47,731
Equity securities, available for sale, at fair value (cost of $1,024 and $1,279)		709		1,184
Trading securities, at fair value (cost of $1 and $1)		1		1
Short-term investments		1,002		1,193
Mortgage loans		1,082		1,090
Other investments		2,448		2,728
Total investments		53,686		53,927
Cash and cash equivalents		6,195		5,848
Premium and other receivables (net of allowance of $118 and $136)		7,931		7,834
Reinsurance recoverables (net of allowance of $345 and $344)		15,452		15,309
Deferred income taxes (net of valuation allowance of $130 and $131)		3,120		3,166
Deferred acquisition costs and acquired in-force policy intangibles		2,585		2,541
Goodwill		4,626		4,645
Prepaid reinsurance premiums		1,812		1,565
Separate account assets		3,024		3,062
Other assets		6,299		6,419
Total assets	$	104,730	$	104,316
Liabilities:				
Unpaid claims and claim adjustment expenses and future policy benefits:				
Property and casualty	$	48,842	$	48,727
Life		6,184		6,258
Other policyholder funds and benefits payable		3,081		3,031
Unearned premiums		13,280		12,944
Funds held under reinsurance treaties		1,866		1,855
Short-term debt		300		-
Long-term debt		5,789		6,089
Separate account liabilities		3,024		3,062
Other liabilities		11,977		12,190
Total liabilities		94,343		94,156
Policyholders' equity:				
Unassigned equity		12,776		12,720
Accumulated other comprehensive loss		(2,389)		(2,560)
Total policyholders' equity		10,387		10,160
Total liabilities and policyholders' equity	$	104,730	$	104,316

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)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Balance at beginning of the period	$ 10,160	$ 12,366
Net income	28	360
Other comprehensive income (loss), net of taxes:		
Unrealized gains (losses) on securities	250	(335)
Foreign currency translation and other adjustments	(51)	84
Total other comprehensive income (loss), net of taxes	199	(251)
Total comprehensive income	227	109
Cumulative effect of accounting change (Note 1)	-	(41)
Balance at end of the period	$ 10,387	$ 12,434

See accompanying notes to the unaudited consolidated financial statements.

Liberty Mutual Holding Company Inc.

Consolidated Statements of Cash Flows

(dollars in millions)

(unaudited)

	Three Months Ended March 31, 2009	2008
Cash flows from operating activities:		
Net income	$ 28	$ 360
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	83	70
Realized investment (gains) losses	(6)	12
Undistributed private equity investment losses (gains)	376	(59)
Premium, other receivables, and reinsurance recoverables	(412)	(360)
Deferred policy acquisition costs	(70)	(91)
Liabilities for insurance reserves	568	895
Taxes payable, net of deferred	(66)	11
Other, net	(116)	(225)
Total adjustments	357	253
Net cash provided by operating activities	385	613
Cash flows from investing activities:		
Purchases of investments	(3,438)	(3,585)
Sales and maturities of investments	3,450	3,231
Property and equipment purchased, net	(93)	(127)
Payment for purchase of companies, net of cash acquired	-	(143)
Other investing activities	136	18
Net cash provided by (used in) investing activities	55	(606)
Cash flows from financing activities:		
Net activity in policyholder accounts	(2)	6
Debt financing, net	1	(62)
Net security lending activity and other financing actitivites	(53)	1,421
Net cash (used in) provided by financing activities	(54)	1,365
Effect of exchange rate changes on cash	(39)	19
Net increase in cash and cash equivalents	347	1,391
Cash and cash equivalents, beginning of period	5,848	3,199
Cash and cash equivalents, end of period	$ 6,195	$ 4,590

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 2008 consolidated financial statements to conform to the 2009 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 and associated reinsurance recoverables and loss sensitive premiums receivable; (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 January 1, 2009, the Company adopted Financial Accounting Standards Board ("FASB") Staff Position ("FSP") No. FAS 115-2 and 124-2, "*Recognition and Presentation of Other-Than-Temporary Impairments*" ("FSP FAS 115-2 and 124-2"). FSP FAS 115-2 and 124-2 amended the accounting for other-than-temporary impairment of debt securities, requires the establishment of a policy for determining when "credit losses" exist and provides guidance on determining the amount of impairment to be recognized in the statement of income. As a result of the adoption, the Company recognized an increase of $28 (net of tax) to policyholders' unassigned equity and a corresponding decrease to accumulated comprehensive loss.

Effective January 1, 2009, the Company adopted FSP FAS 157-4, "*Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*" (FSP FAS 157-4). FSP FAS 157-4 amended Statement of Financial Accounting Standards ("SFAS") SFAS 157, *Fair Value Measurements*, to provide additional guidance on whether a market is inactive, and if so, whether a transaction in that market is distressed. The adoption of FSP FAS 157-4 did not have a material impact on the Company's consolidated financial statements.

Effective January 1, 2009, the Company adopted the following accounting pronouncements which had no material impact on the Company's consolidated financial statements:

- SFAS No. 141(R), "*Business Combinations"*
- SFAS No. 160, "*Noncontrolling Interests in Consolidated Financial Statements"*
- SFAS No. 161, "*Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133"*
- FASB Staff Position FAS 142-3, "*Determination of the Useful Life of Intangible Assets"*
- Emerging Issues Task Force ("EITF") issue No. 08-6, "*Equity Method Investment Accounting Considerations"*

Effective January 1, 2008, the Company adopted 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"). The Company has not made any fair value elections under SFAS 159.

Effective January 1, 2008, the Company adopted EITF 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. The adoption of EITF 06-4 resulted in a decrease to policyholders' unassigned equity of $41.

Effective January 1, 2008, the Company adopted EITF issue No. 06-10, "*Accounting for 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 Accounting Principles Board Opinion 12. The adoption of EITF 06-10 had no impact on the Company's consolidated financial statements.

Future Adoption of New Accounting Standards

In March 2009, the FASB unanimously voted that the FASB Accounting Standards Codification ("the Codification") be effective July 1, 2009. Codification will result in the Company changing historical references to existing accounting standards to be in line with the new topical format of the codified standards. The implementation of the Codification is not intended to change existing U.S. GAAP and therefore will not impact the Company's consolidated financial statements.

In December 2008, the FASB issued FSP FAS 132(R)-1, "*Employers' Disclosures about Postretirement Benefit Plan Assets*". ("FSP FAS 132(R) -1") FSP FAS 132(R)-1 amends FASB Statement No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits*, to expand an employer's disclosures (similar to the requirements of SFAS 157) about plan assets of a defined benefit pension or other postretirement plan. The Company is required to adopt the disclosure requirements of FSP FAS 132(R)-1 effective for December 31, 2009 year end reporting. The adoption of FSP FAS 132(R)-1 is not expected have a material impact on the Company's consolidated financial statements.

(dollars in millions)

Accumulated Other Comprehensive Loss
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, are as follows:

	March 31, 2009	December 31, 2008
Unrealized losses on securities	$(1,207)	$(1,457)
Foreign currency translation & other adjustments	(17)	51
Minimum pension liability	(1,137)	(1,154)
Cumulative effect of accounting change	(28)	-
Accumulated other comprehensive loss	$(2,389)	$(2,560)

(2) ACQUISITIONS AND DISPOSITIONS

Safeco Corporation
On September 22, 2008, the Company, through its subsidiaries, acquired all outstanding shares of common stock of Safeco Corporation for a total purchase price of $6,244. Preliminary goodwill and intangible assets (excluding acquired in-force policy intangibles) recognized from the transaction was $3,524. The Company is in the process of finalizing the fair value of the acquired business and related integration efforts; therefore, the allocation of the purchase price is subject to refinement. The results of operations of Safeco Corporation are included in the Company's financial statements subsequent to September 22, 2008.

Integration Activities

As part of the Safeco Corporation acquisition, management has received board authorization to implement certain integration efforts, principally employee and contract terminations. Changes to the restructuring reserves as of and for the three months ended March 31, 2009 are as follows:

	2009
Balance at beginning of year	$83
Net adjustments to liability	11
Payments applied against liability	(46)
Balance at March 31, 2009	$48

Indiana Seguros, S.A.
On January 9, 2008, the Company through its Brazilian subsidiary, Liberty International Brazil Ltda., acquired Indiana Seguros, S.A., a writer of auto insurance in Brazil for $143. Goodwill recognized from the transaction was $103. The results of operations of Indiana Seguros, S.A. are included in the Company's financial statements subsequent to January 9, 2008.

Dispositions

On January 22, 2009, the Company established Liberty Mutual Middle Market, a new market segment in Commercial Markets that combines the Business Market and Wausau Insurance market segments. As part of this change, the Company eliminated its direct distribution channel to its mid-sized commercial lines customers and retired the Wausau brand. Middle Market provides Liberty Mutual products and services exclusively through independent agents and brokers. As part of this change, on February 27, 2009, the Company completed the sale of the policy renewal rights of the existing Business Market and Wausau Insurance policyholders in various portions to three nationally recognized brokerage firms.

(dollars in millions)

(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 March 31, 2009, and December 31, 2008, deferred gains related to these reinsurance arrangements were $721 and $725, respectively, and are included in other liabilities within the consolidated balance sheets. Interest credited to the funds held balances was $29 for the three months ended March 31, 2009 and 2008. Deferred gain amortization was $17 and $16 for the three months ended March 31, 2009, and 2008, respectively. Reinsurance recoverables related to these transactions, including experience related profit accruals, were $2,162 and $2,165 as of March 31, 2009, and December 31, 2008, 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, premium and loss activity subsequent to December 31, 2001 is now accounted for as retroactive reinsurance for coverage provided from the fourth quarter 2000 through the fourth quarter 2001 covered accident year periods.

In 2006, the Company 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 the Company and its affiliates in the event of a Northeast hurricane. The reinsurance agreements are collateralized through a trust and guarantee 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, the Company 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 the Company in the event of a Northeast and/or Florida hurricane event. As of December 31, 2008, $325 of the original $525 of Mystic Re matured. As no events attached to that issue, the respective collateral was released during the fourth quarter of 2008. In the first quarter of 2009, the Company entered into an agreement with Mystic Re II to provide $225 of additional reinsurance coverage for the Company in the event of a U.S. hurricane or earthquake event. The Company has not recorded any recoveries under these programs. Neither Mystic Re nor Mystic Re II has any other reinsurance in force.

During the first quarter of 2009, the Company entered into new property catastrophe reinsurance, replacing $162 of collateral with $186 of new collateral issued at the inception of the contracts. The Company has not recorded any recoveries under these programs.

(4) DEBT OUTSTANDING

Debt outstanding at March 31, 2009, and December 31, 2008, includes the following:

Short-term debt:

	2009	2008
Commercial paper	$ -	$ -
Revolving credit facilities	-	-
Current maturities of long-term debt	300	-
Total short-term debt	$300	$ -

(dollars in millions)

Long-term debt:

	2009	2008
4.875% Notes, due 2010[1]	$ -	$300
7.25% Notes, due 2012[1]	204	204
8.00% Notes, due 2013	260	260
7.86% Medium Term Notes, due 2013	25	25
5.75% Notes, due 2014	500	500
7.30% Notes, due 2014[2]	200	200
6.70% Notes, due 2016	250	250
7.00% Subordinated Notes, due 2067[3]	300	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[4]	700	700
10.75% Subordinated Notes, due 2088[5]	1,250	1,250
7.697% Surplus Notes, due 2097	500	500
	5,842	6,142
Unamortized discount	(53)	(53)
Total long-term debt excluding current maturities	$5,789	$6,089

[1] Reflects debt originally issued by Safeco. On December 29, 2008, $281 of the outstanding $300 4.875% notes due 2010 and $187 of the outstanding $204 7.25% notes due 2012 were exchanged for a like principal amount of newly issued Liberty Mutual Group Inc. ("LMGI") notes.
[2] Reflects debt originally issued by Ohio Casualty. On December 29, 2008, $180 of the outstanding $200 7.30% notes due 2014 were exchanged for a like principal amount of newly issued LMGI notes.
[3] The par value call date and final fixed rate interest payment date is March 15, 2017, subject to certain requirements.
[4] The par value call date and final fixed rate interest payment date is March 15, 2037, subject to certain requirements.
[5] The par value call date and final fixed rate interest payment date is June 15, 2038, subject to certain requirements.

Short-term Debt

On March 11, 2009, Liberty Mutual Insurance Company became a member of the Federal Home Loan Bank of Boston. To date, no funds have been borrowed.

The Company periodically issues commercial paper to meet short-term operating needs. The total facility was $1,000 at March 31, 2009 and 2008, and is supported by two credit facilities totaling $750. There was zero commercial paper issued and outstanding at March 31, 2009, and 2008.

On September 2, 2008, Liberty Mutual Insurance Company ("LMIC") entered into a $750 364-day committed repurchase agreement facility for general corporate purposes. To date, no funds have been borrowed under the facility.

On April 5, 2007, LMGI entered into a $250 3-year unsecured revolving credit facility for general corporate purposes. To date, no funds have been borrowed under the facility.

On June 9, 2006, Liberty Mutual Insurance Europe Limited entered into a $20 revolving loan facility. The facility is available to provide working capital to the Company's international operations. The revolving loan facility is guaranteed by LMIC. As of March 31, 2009, no borrowings were outstanding under the facility.

Long-term Debt

On December 29, 2008, LMGI exchanged $281 of the outstanding $300 Safeco 4.875% Senior Notes due 2010 for a like principal amount of newly issued LMGI 4.875% Senior Notes due 2010. LMGI exchanged $187 of the outstanding $204 Safeco 7.25% Senior Notes due 2012 for a like principal amount of newly issued LMGI 7.25% Senior Notes due 2012. LMGI exchanged $180 of the outstanding $200 Ohio Casualty 7.30% Senior Notes due 2014 for a like principal amount of newly issued LMGI 7.30% Senior Notes due 2014. The above transactions were not deemed to be substantial modifications to the Safeco and Ohio Casualty Senior Notes. Safeco and Ohio Casualty received and accepted the requisite consents to enable each to execute a supplemental indenture governing the Safeco and Ohio Casualty Senior Notes that remain outstanding. The supplemental indenture eliminated substantially all restrictive covenants and eliminated or modified certain events of default.

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

(dollars in millions)

On May 29, 2008, LMGI issued Series C junior subordinated notes (the "Series C Notes") with a face amount of $1,250. The Series C Notes are scheduled for redemption on June 15, 2058, with a final maturity of June 15, 2088. LMGI may redeem the Series C Notes in whole or in part, on June 15, 2038, and on each interest payment date thereafter at their principal amount plus accrued and unpaid interest to the date of redemption, or prior to June 15, 2038, (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 10.75% up to, but excluding, the final fixed rate interest payment date. In the event the Series C 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 7.12%, payable quarterly in arrears. LMGI has the right to defer interest payments on the Series C Notes for a period up to ten years. Interest compounds during periods of deferral. In connection with the issuance of the Series C Notes, LMGI entered into a Replacement Capital Covenant ("RCC"). As part of the RCC, LMGI agreed that it will not repay, redeem, decease 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 C 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).

(5) SFAS 157 – FAIR VALUE MEASUREMENT

The Company adopted SFAS 157 effective January 1, 2008. SFAS 157 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 Company's estimates of the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). Certain derivatives recorded at fair value based on the requirements of Statement of Financial Accounting Standard No. 133, *Accounting for Derivative Instruments and Hedging Activities,* are impacted by the application of SFAS 157. The Company has variable annuity contracts containing embedded derivatives that are affected by SFAS 157, but the impact is immaterial.

The hierarchy requires the use of market observable information when available for assessing fair value. The following table summarizes the Company's assets and liabilities that are measured at fair value on a recurring basis as of March 31, 2009, along with a brief description of the valuation technique for each type of asset and liability:

Assets, at Fair Value	**Level 1**	**Level 2**	**Level 3**	**Total**
Fixed maturities, available for sale	$1,149	$46,468	$827	$48,444
Equity securities, available for sale	360	285	64	709
Trading securities	-	1	-	1
Short-term investments	71	853	78	1,002
Other investments	-	54	60	114
Separate account assets	779	1,470	13	2,262
Other assets	9	66	25	100
Total assets	$2,368	$49,197	$1,067	$52,632
Liabilities, at Fair Value				
Life insurance obligations	$ -	$ -	$217	$217
Total liabilities	$ -	$ -	$217	$217

(dollars in millions)

Fixed maturities and short-term investments are recorded at fair value in the Company's financial statements. In instances where there are quoted prices in active markets for identical instruments, as is the case within the US Treasury market, these securities are categorized as Level 1 of the fair value hierarchy. For securities where the fair value of fixed income securities are estimated using recently executed transactions, market price quotations, bond spreads, or models that have inputs from published interest rate yield curves, these securities are generally categorized as Level 2 of the hierarchy. Additionally, in some instances where fixed maturity securities use significant inputs that are unobservable, they are categorized as Level 3 of the hierarchy.

Equity and trading securities are recorded at fair value in the Company's financial statements. The fair value of common stocks are generally based on quoted prices in active markets. As such, common stocks are generally categorized as Level 1 of the fair value hierarchy. The fair value of preferred stocks are generally determined by quoted prices for similar instruments in active markets, hence they are categorized as Level 2 of the fair value hierarchy.

Other investments include primarily international loans, foreign cash deposits and co-investments. International loans and cash deposits are primarily valued using quoted prices for similar instruments in active markets; these assets are categorized as Level 2 of the fair value hierarchy. Co-investments are valued using internal management estimates; they are categorized as Level 3 of the hierarchy. Limited partnership investments, which represent the remainder of the other investment balance on the consolidated balance sheet, are not subject to SFAS 157 and therefore are excluded from the above table.

Separate account assets, which primarily consist of fixed maturity 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.

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

Life insurance obligations include certain variable annuity contracts which contain guaranteed minimum income benefits that under SFAS 133 contain embedded derivatives and are bifurcated from the host contract and carried at fair value. The measurements on these embedded derivatives is 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. These assumptions include mortality, lapse, and the underlying take-up rate with regard to annuitization.

The following table sets forth the fair values of assets on a recurring basis classified as Level 3 within the fair value hierarchy:

	Balance January 1, 2009	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Net Purchases, (Sales) and (Maturities)	Transfer in and/ or out of Level 3	Balance March 31, 2009
Fixed maturities	$897	$(1)	$(19)	$(13)	$(37)	$827
Equity securities	110	(5)	6	11	(58)	64
Short-term investments	73	-	-	3	2	78
Other investments	62	(5)	1	2	-	60
Separate account assets	2	-	-	-	11	13
Other assets	27	(3)	-	1	-	25
Total assets	$1,171	$(14)	$(12)	$4	$(82)	$1,067
Life insurance obligations	$223	$7	$-	$(13)	$-	$217
Total liabilities	$223	$7	$-	$(13)	$-	$217

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 at March 31, 2009.

For the three months ended March 31, 2009, there were impairments of $5 recognized for items measured at fair value on a nonrecurring basis.

(dollars in millions)

(6) BENEFIT PLANS

The net benefit costs for the three months ended March 31, 2009, and 2008, include the following components:

Three months ended March 31,	Pension Benefits		Supplemental * Pension Benefits		Postretirement Benefits	
	2009	2008	2009	2008	2009	2008
Components of net periodic benefit costs						
Service costs	$ 51	$ 35	$ 3	$ 2	$ 7	$ 5
Interest costs	67	59	5	4	12	10
Expected return on plan assets	(62)	(66)	-	-	-	-
Amortization of unrecognized:						
Net loss	13	2	2	1	-	-
Prior service cost	2	2	1	1	(1)	(1)
Net transition (assets)/obligation	(2)	(2)	-	-	2	2
Net periodic benefit costs	$ 69	$ 30	$ 11	$ 8	$ 20	$ 16

* 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.

(7) 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 1977 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 after being reactivated at a Rule 16 Scheduling Conference on October 22, 2007. In June 2008, a separate action was filed against Liberty Mutual in Cook County, Illinois, in which three plaintiffs seek to have Liberty Mutual pay the balance of their pre-bankruptcy Armstrong settlements. The Armstrong Asbestos Bodily Injury Trust (the "Trust") recently intervened in this Illinois state court action, asserting a number of the same claims as are at issue in the Pennsylvania Coverage Action. 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 may possibly 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.

As of March 31, 2009, the Company had unfunded commitments in traditional private equity partnerships, energy and other, and real estate, of $1,028, $476, and $420. As of March 31, 2009, the Company had commitments to purchase various residential mortgage-backed securities at a cost and fair market value of $341 and $348, respectively.