Liberty Mutual Holding Company Inc.

First Quarter 2011

Consolidated Financial Statements

Liberty Mutual Holding Company Inc.

Consolidated Statements of Income

(dollars in millions)

(Unaudited)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Revenues		
Premiums earned	$ 7,181	$ 7,099
Net investment income	915	810
Fee and other revenues	209	186
Net realized investment gains	76	95
Total revenues	8,381	8,190
Claims, Benefits and Expenses		
Benefits, claims and claim adjustment expenses	5,415	5,232
Insurance operating costs and expenses	1,119	1,119
Amortization of deferred policy acquisition costs	1,175	1,192
Interest expense	113	116
Interest credited to policyholders	42	48
Total claims, benefits and expenses	7,864	7,707
Income before income tax expense	517	483
Income tax expense	155	168
Net income	$ 362	$ 315

Net Realized Investment Gains

Other-than-temporary impairment losses:	2011	2010
Total other-than-temporary impairment losses	$ (14)	$ (15)
Change in portion of loss recognized in other comprehensive income	(4)	-
Other-than-temporary impairment losses	(18)	(15)
Other net realized investment gains	94	110
Net realized investment gains	$ 76	$ 95

See accompanying notes to the unaudited consolidated financial statements.

Liberty Mutual Holding Company Inc.

Consolidated Balance Sheets

(dollars in millions)

(Unaudited)

	March 31, 2011	December 31, 2010
Assets:		
Investments		
Fixed maturities, available for sale, at fair value (amortized cost of $57,361 and $56,375)	$ 59,402	$ 58,553
Equity securities, available for sale, at fair value (cost of $1,664 and $1,552)	1,881	1,733
Short-term investments	374	313
Mortgage loans	1,189	1,206
Other investments	3,507	3,067
Total investments	66,353	64,872
Cash and cash equivalents	4,701	4,930
Premium and other receivables (net of allowance of $154 and $143)	8,449	8,072
Reinsurance recoverables (net of allowance of $386 and $393)	13,609	14,310
Deferred income taxes (net of valuation allowance of $159 and $153)	759	796
Deferred acquisition costs	2,874	2,771
Goodwill	4,762	4,750
Prepaid reinsurance premiums	1,589	1,404
Separate account assets	3,919	3,893
Other assets	6,732	6,552
Total assets	$ 113,747	$ 112,350
Liabilities:		
Unpaid claims and claim adjustment expenses and future policy benefits:		
Property and casualty	$ 48,485	$ 48,059
Life	6,960	6,781
Other policyholder funds and benefits payable	3,723	3,629
Unearned premiums	14,597	13,977
Funds held under reinsurance treaties	1,196	1,784
Short-term and current maturities of long-term debt	1	1
Long-term debt	5,635	5,635
Separate account liabilities	3,919	3,893
Other liabilities	11,728	11,613
Total liabilities	96,244	95,372
Policyholders' equity:		
Unassigned equity	16,054	15,692
Accumulated other comprehensive income	1,449	1,286
Total policyholders' equity	17,503	16,978
Total liabilities and policyholders' equity	$ 113,747	$ 112,350

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, 2011	2010
Balance at beginning of the year	$ 16,978	$ 14,514
Net income	362	315
Other comprehensive income, net of taxes:		
Unrealized gains on securities	99	112
Foreign currency translation and other adjustments	64	(4)
Total other comprehensive income, net of taxes	163	108
Total comprehensive income	525	423
Balance at end of the period	$ 17,503	$ 14,937

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, 2011	2010
Cash flows from operating activities:		
Net income	$ 362	$ 315
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	127	93
Realized investment gains	(76)	(95)
Undistributed private equity investment gains	(206)	(82)
Premium, other receivables, and reinsurance recoverables	(277)	(1,152)
Deferred acquisition costs	(95)	(75)
Liabilities for insurance reserves	832	1,199
Taxes payable, net of deferred	87	124
Other, net	(148)	132
Total adjustments	244	144
Net cash provided by operating activities	606	459
Cash flows from investing activities:		
Purchases of investments	(4,927)	(4,814)
Sales and maturities of investments	4,018	4,943
Property and equipment purchased, net	(211)	(95)
Other investing activities	127	(2)
Net cash (used in) provided by investing activities	(993)	32
Cash flows from financing activities:		
Net activity in policyholder accounts	66	24
Debt financing, net	1	(302)
Net security lending activity and other financing actitivites	85	(459)
Net cash provided by (used in) financing activities	152	(737)
Effect of exchange rate changes on cash	6	(215)
Net decrease in cash and cash equivalents	(229)	(461)
Cash and cash equivalents, beginning of period	4,930	4,847
Cash and cash equivalents, end of period	$ 4,701	$ 4,386

See accompanying notes to the unaudited consolidated financial statements.

(dollars and euros in millions)

(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 2010 unaudited consolidated interim financial statements to conform with the 2011 presentation. All material intercompany transactions and balances have been eliminated.

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 reserves; (3) fair value determination and other-than-temporary impairments of the investment portfolio; (4) deferred acquisition costs; (5) valuation of goodwill and intangible assets; and (6) deferred income tax valuation allowance. 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

There were no accounting standards adopted through the first quarter of 2011 that had a material impact on the Company.

Future Adoption of New Accounting Standards

In October 2010, the FASB issued Accounting Standards Update 2010-26, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts* ("ASU 2010-26"). This guidance, as codified in FASB Accounting Standards Codification ("ASC") 944, *Financial Services - Insurance,* specifies that acquisition costs should include only those costs that are directly related to the acquisition or renewal of insurance contracts. All other acquisition related costs, including market research, training, administration, unsuccessful acquisition or renewal efforts, and product development, should be charged to expense as incurred. The Company is required to adopt ASU 2010-26 effective January 1, 2012. The Company is in the process of evaluating the impact of adoption.

None of the other accounting standards issued for the first quarter of 2011 will have a material impact on the Company.

Accumulated Other Comprehensive Income

Accumulated other comprehensive 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 income, net of related deferred acquisition costs and taxes, are as follows:

	March 31, 2011	December 31, 2010
Unrealized gains on securities	$ 1,368	$ 1,269
Foreign currency translation & other adjustments	376	313
Accumulated pension liability adjustments	(295)	(296)
Accumulated other comprehensive income	$ 1,449	$ 1,286

(dollars and euros in millions)

(2) INVESTMENTS

The following table summarizes the Company's available for sale portfolio by security type as of March 31, 2011 and December 31, 2010:

March 31, 2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agency securities	$ 3,003	$ 179	$ (11)	$ 3,171
Mortgage and asset-backed securities:				
Residential	9,856	415	(54)	10,217
Commercial	2,324	90	(3)	2,411
Other mortgage and ABS securities	1,664	83	(5)	1,742
U.S. state and municipal	12,559	438	(120)	12,877
Corporate and other	23,049	1,213	(172)	24,090
Foreign government securities	4,906	87	(99)	4,894
Total fixed maturities	57,361	2,505	(464)	59,402
Common stock	1,112	276	(32)	1,356
Preferred stock	552	42	(69)	525
Total equity securities	1,664	318	(101)	1,881
Total securities available for sale	$ 59,025	$ 2,823	$ (565)	$ 61,283

December 31, 2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agency securities	$ 3,008	$ 197	$ (13)	$ 3,192
Mortgage and asset-backed securities:				
Residential	9,628	455	(50)	10,033
Commercial	2,378	99	(4)	2,473
Other mortgage and ABS securities	1,661	93	(6)	1,748
U.S. state and municipal	12,414	438	(120)	12,732
Corporate and other	22,907	1,274	(206)	23,975
Foreign government securities	4,379	106	(85)	4,400
Total fixed maturities	56,375	2,662	(484)	58,553
Common stock	1,000	253	(23)	1,230
Preferred stock	552	35	(84)	503
Total equity securities	1,552	288	(107)	1,733
Total securities available for sale	$ 57,927	$ 2,950	$ (591)	$ 60,286

Of the $1,356 and $1,230 of common stock as of March 31, 2011 and December 31, 2010, respectively, $319 and $304, respectively, related to securities associated with non-guaranteed unit-linked products where the policyholder bears the investment risk.

(dollars and euros in millions)

The fair value of fixed maturities as of March 31, 2011 and December 31, 2010, by contractual maturity are as follows:

Fixed Maturities by Maturity Date	**As of March 31, 2011**	**As of December 31, 2010**
1 year or less	$ 2,279	$ 2,458
Over 1 year through 5 years	17,074	16,408
Over 5 years through 10 years	13,951	13,391
Over 10 years	11,728	12,042
Mortgage and asset-backed securities of government and corporate agencies	14,370	14,254
Total fixed maturities	$ 59,402	$ 58,553

The following table summarizes the Company's gross realized gains and losses by asset type for the three months ended March 31, 2011 and 2010, respectively:

Components of Net Realized Investment Gains	**2011**	**2010**
Fixed maturities:		
Gross realized gains	$ 54	$ 104
Gross realized losses	(29)	(14)
Equities:		
Gross realized gains	41	8
Gross realized losses	(1)	-
Other:		
Gross realized gains	19	8
Gross realized losses	(8)	(11)
Total net realized investment gains	$ 76	$ 95

(dollars and euros in millions)

The following table summarizes the Company's unrealized losses and fair value by security type and by duration that individual securities have been in an unrealized loss position as of March 31, 2011, that are not deemed to be other-than-temporarily impaired :

	Less Than 12 Months		12 Months or Longer	
Unrealized Losses & Fair Value by Security Type	**Unrealized Losses**	**Fair Value of Investments with Unrealized Losses**	**Unrealized Losses**	**Fair Value of Investments with Unrealized Losses**
U.S. Government and agency securities	$ (11)	$ 567	$ -	$ -
Mortgage and asset-backed securities:				
Residential	(29)	2,092	(25)	354
Commercial	(1)	114	(2)	27
Other mortgage and ABS securities	(1)	55	(4)	22
U.S. state and municipal	(83)	2,468	(37)	176
Corporate and other	(89)	3,883	(83)	762
Foreign government securities	(52)	1,766	(47)	406
Total fixed maturities	(266)	10,945	(198)	1,747
Common stock	(15)	189	(17)	114
Preferred stock	-	8	(69)	336
Total equities	(15)	197	(86)	450
Total	$ (281)	$ 11,142	$ (284)	$ 2,197

Unrealized losses decreased from $591 as of December 31, 2010 to $565 as of March 31, 2011 primarily due to increases in interest rates partially offset by tightening credit spreads. Unrealized losses less than 12 months increased from $263 at December 31, 2010 to $281 as of March 31, 2011, an increase of $18. Unrealized losses 12 months or longer decreased from $328 as of December 31, 2010 to $284 as of March 31, 2011. As of March 31, 2011, there were 424 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 income securities before they recover their fair value.

The Company reviews fixed income, public equity securities and private equity and private equity co-investment securities 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 management's best estimate of the present value of the cash flows expected to be collected from the debt security compared to its amortized cost and is reported as part of net realized gains (losses). The non-credit component, the residual difference between the credit impairment component and the fair value, is recognized in other comprehensive income (loss). 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 debt 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) 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 debt securities and certain preferred equity securities) or the Company's 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.

Subsequent to March 31, 2011, the Company has not recognized any additional material other-than-temporary impairments.

Variable Interest Entities

The Company invests in energy, private equity and real estate limited partnerships and other entities subject to variable interest entity ("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 March 31, 2011 the Company has no VIEs in which it is the primary beneficiary.

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*. The 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 majority, of this variability. The carrying value of assets was $107 and $94 as of March 31, 2011 and December 31, 2010, respectively, and the Company's maximum exposure to loss was $270 and $123 as of March 31, 2011 and December 31, 2010, respectively, for unconsolidated VIEs in which the Company has a significant variable interest. The assets are included in other investments on the consolidated balance sheets. Maximum exposure to loss includes the carrying value and unfunded commitment of the VIE. There is no recourse provision to the general credit of the Company for any VIE beyond the full amount of the Company's loss exposure.

Derivatives

The Company has a Derivative Use Policy, which has been approved by the Investment Committee of each domestic insurance subsidiary that has entered into derivative transactions. Pursuant to the policy, the Company may enter into derivative transactions. As of March 31, 2011, the Company had no material derivative agreements in place.

(3) 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 $13,609 and $14,310 at March 31, 2011 and December 31, 2010, respectively, net of allowance for doubtful accounts of $386 and $393, respectively. The decrease is primarily due to the commutations of two excess of loss retroactive reinsurance agreements. Included in these balances are $945 and $965 of paid recoverables and $13,050 and $13,738 of unpaid recoverables, respectively.

The reinsurance recoverables from Nationwide Indemnity Company have been fully guaranteed by its parent, Nationwide Mutual Insurance Company, which has a financial strength rating of A+ from Standard & Poor's. The reinsurance recoverables from state mandated involuntary pools and associations represent the Company's servicing carrier business. As a servicing carrier, the Company retains no direct underwriting risk but instead cedes 100% of the involuntary market premium and losses back to the pool. Payment of losses is shared by the pool participants in proportion to their pool participation. Reinsurer credit risk with respect to any such involuntary pool or association is a function of the creditworthiness of all of the pool participants.

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

Approximately 94% of the Company's reinsurance recoverable balance, net of collateral held and including voluntary and involuntary pools and associations, was placed with reinsurers rated A- or better from Standard & Poor's as of March 31, 2011. Collateral held against outstanding gross reinsurance recoverable balances was $4,756 and $5,359 as of March 31, 2011 and December 31, 2010, respectively.

The remaining 6% of the Company's net reinsurance recoverable balance is well diversified. No single reinsurer rated BBB+ or below by Standard & Poor's accounts for more than 2% of policyholders' equity. In addition, the average net reinsurance recoverable balance from individual reinsurers rated below A- or not rated by Standard & Poor's was approximately $1 as of March 31, 2011.

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 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 income statement charges.

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 7.8% annually. These contracts resulted in deferred gains (including experience related profit accruals of $113) that are amortized into income using the effective interest method over the estimated settlement periods. As of March 31, 2011, and December 31, 2010, deferred gains related to these reinsurance arrangements were $339 and $550, respectively, and are included in other liabilities within the consolidated balance sheets. Interest credited to the funds held balances for the three months ended March 31, 2011 and 2010 was $30 and $29, respectively. Deferred gain amortization was $99 and $17 for the three months ended March 31, 2011 and 2010, respectively. Reinsurance recoverables related to these transactions, including experience related profit accruals, were $1,240 and $1,947 as of March 31, 2011, and December 31, 2010, respectively. Effective March 31, 2011, the Company commuted two workers compensation excess of loss retroactive reinsurance agreements. The commutations, which represent the complete and final settlement and discharge of all present and future obligations between the parties arising out of the agreements, resulted in a gain to the Company of $54, net of tax.

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.

In 2007, the Company entered into a multi-year property catastrophe reinsurance agreement with Mystic Re II Ltd. ("Mystic Re II"), a Cayman Islands domiciled reinsurer, to provide $150 of reinsurance coverage for the Company and its affiliates in the event of a Northeast and/or Florida hurricane event. In the first quarter 2009, the Company entered into another 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 reinsurance agreements are collateralized through a trust and guarantee received by Mystic Re II from the issuance of catastrophe bonds and provides coverage for hurricane or earthquake-related losses based on industry insured losses as reported by Property Claim Services along with company specific losses on the event. The Company has not recorded any recoveries under these programs. Mystic Re II does not have any other reinsurance in force.

(dollars and euros in millions)

(4) DEBT OUTSTANDING

Debt outstanding as of March 31, 2011 and December 31, 2010 includes the following:

Short-term and current maturities of long-term debt:	March 31, 2011	December 31, 2010
Commercial paper	$ -	$ -
Revolving credit facilities	-	-
Current maturities of long-term debt	1	1
Total short-term and current maturities of long-term debt	$ 1	$ 1

Long-term debt:	March 31, 2011	December 31, 2010
7.25% Notes, due 2012	$ 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	200	200
5.588% Mortgage Loan due 2015	49	49
6.70% Notes, due 2016	249	249
7.00% Junior Subordinated Notes, due 2067[1]	300	300
8.50% Surplus Notes, due 2025	140	140
7.875% Surplus Notes, due 2026	227	227
7.625% Notes, due 2028	3	3
7.00% Notes, due 2034	231	231
6.50% Notes, due 2035	471	471
7.50% Notes, due 2036	440	440
7.80% Junior Subordinated Notes, due 2087[2]	700	700
10.75% Junior Subordinated Notes, due 2088[3]	1,250	1,250
7.697% Surplus Notes, due 2097	435	435
	5,684	5,684
Unamortized discount	(49)	(49)
Total long-term debt excluding current maturities	$ 5,635	$ 5,635

[1] The par value call date and final fixed rate interest payment date is March 15, 2017, subject to certain requirements.
[2] The par value call date and final fixed rate interest payment date is March 15, 2037, subject to certain requirements.
[3] 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

On May 12, 2010, Liberty Mutual Agency Corporation ("LMAC"), entered into a $200 unsecured revolving credit facility for general corporate purposes with a syndicate of lenders led by Bank of America, N.A. that terminates three years following the date the facility first becomes available. On November 5, 2010, LMAC and Ohio Casualty Corporation ("OCC") entered into an Amended and Restated Revolving Credit Agreement to allow both LMAC and OCC to be joint and several co-borrowers under the facility, as well as to change certain covenants to reflect the combined financial statements of the co-borrowers. On December 20, 2010, the co-borrowers triggered the availability of the facility and established the specific terms of the financial covenants based on the current combined financial statements (after giving effect to certain reorganization transactions). To date, no funds have been borrowed under the agreement.

On May 11, 2010, Peerless Insurance Company ("PIC") became a member of the Federal Home Loan Bank of Boston. This membership provides the Company with access to a secured asset-based borrowing with loan maturities of up to 20 years. To date, no funds have been borrowed under the agreement.

On March 26, 2010, Liberty Mutual Insurance Company ("LMIC") entered into a $750 three-year committed repurchase agreement. In connection with the new repurchase agreement, LMIC terminated its existing $750 364-day committed repurchase agreement. As of March 31, 2011, no borrowings were outstanding under the agreement.

On March 26, 2010, PIC entered into a $250 three-year committed repurchase agreement. The repurchase agreement is guaranteed by LMIC. To date, no funds have been borrowed under the agreement.

On December 14, 2009, Liberty Mutual Group Inc. ("LMGI") entered into a three-year $400 unsecured revolving credit facility which terminates on December 14, 2012. In connection with the new facility, LMGI terminated its $250 three-year unsecured revolving credit facility and its two revolving credit facilities totaling $750. To date, no funds have been borrowed under the facility.

The Company places commercial paper through a program issued by LMGI and guaranteed by LMIC. Effective December 14, 2009, the $1,000 commercial paper program was reduced to $400 and is backed by the three-year $400 unsecured revolving credit facility. As of March 31, 2011, no commercial paper borrowings were outstanding.

On December 10, 2009, Berkeley/St. James Real Estate LLC, a wholly-owned affiliate of the Company, entered into a five-year $50 mortgage loan secured by the Company's headquarters located at 175 Berkeley Street and 30 St. James Avenue, Boston Massachusetts. The mortgage loan has limited recourse to Berkeley/St. James Real Estate LLC in certain instances, and LMGI guarantees those limited recourse obligations.

On March 11, 2009, LMIC became a member of the Federal Home Loan Bank of Boston. This membership provides the Company with access to a secured asset-based borrowing with loan maturities of up to 20 years. To date, no funds have been borrowed.

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, 2011, no borrowings were outstanding under the facility.

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.

(5) ASBESTOS AND ENVIRONMENTAL

The Company's asbestos and environmental reserves for unpaid claims and claim adjustment expenses, net of reinsurance and including uncollectible reinsurance, were $1,127 and $1,190 as of March 31, 2011 and December 31, 2010, respectively.

In the third quarter of 2009, the Company completed its biennial ground-up asbestos reserve study. The study was completed by a multi-disciplined team of internal claims, legal, reinsurance and actuarial personnel, and it included all major segments of the Company's direct, assumed, and ceded asbestos claims. As part of the internal review, potential exposures of certain policyholders were individually evaluated using the Company's proprietary stochastic model, which is consistent with published actuarial papers on 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, types of injury, state jurisdictions, legal defenses, and reinsurance potential. The remaining policyholders (those with less potential exposure) were evaluated using aggregate methods that utilized information and experience specific to these insureds. The study resulted in an increase to reserves of $383, which included an increase of $70 to the allowance for uncollectible reinsurance. Between comprehensive studies, the Company monitors asbestos activity to determine whether or not any adjustment to reserves is warranted. The Company completed its 2010 annual study on the environmental claims liability, resulting in immaterial adjustments to held reserves.

(6) INCOME TAXES

The income tax provision is calculated under the liability method. 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.

The Company's effective tax rate differs from the Federal statutory rate of 35% principally due to tax-exempt investment income.

(dollars and euros in millions)

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Balance as of December 31, 2010	$ 321
Additions based on tax positions related to current year	1
Additions for tax positions of prior years	11
Balance as of March 31, 2011	$ 333

Included in the tabular roll forward of unrecognized tax benefits is interest in the amount of $86 and $84 as of March 31, 2011 and December 31, 2010, respectively.

Included in the balance as of March 31, 2011 is $163 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 March 31, 2011 and 2010, the Company recognized approximately $4 and $3 of interest and penalties, respectively. The Company had approximately $84 and $80 of interest and penalties accrued as of March 31, 2011 and December 31, 2010, respectively.

(7) BENEFIT PLANS

The net benefit costs for the three months ended March 31, 2011 and 2010, include the following components:

Three months ended March 31,	**Pension Benefits**		**Supplemental Pension Benefits ***		**Postretirement Benefits**	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Components of net periodic benefit costs:						
Service costs	$ 26	$ 48	$ 2	$ 2	$ 4	$ 7
Interest costs	72	71	5	5	12	12
Expected return on plan assets	(70)	(64)	-	-	-	-
Amortization of unrecognized:						
Net loss (gain)	1	12	2	2	(1)	-
Prior service cost	1	2	-	1	(1)	-
Net transition (assets)/obligation	(1)	(2)	-	-	-	2
Net periodic benefit costs	$ 29	$ 67	$ 9	$ 10	$ 14	$ 21

* 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 $3 to the qualified plans as of March 31, 2011 and expects to additionally contribute approximately $302.

(8) FAIR VALUE MEASUREMENT

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 own assumptions about the assumptions that market participants might use.

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 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

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 classified within Level 2.

Mortgage-backed securities

The Company's portfolio of residential mortgage-backed securities ("MBS") and commercial MBS are 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

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 comprises 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, 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 comprise bonds issued by foreign governments and their agencies along with supranational organizations. 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, broker quotes, issuer ratings, reported trades of identical or comparable securities and credit spreads. Accordingly, the fair value of foreign government securities is primarily classified within Level 2.

Equity securities
Equity securities include common and preferred stocks. Common stocks with fair values based on quoted market prices in active markets are classified in 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 classified in 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.

Other investments
Other investments include primarily international loans, foreign cash deposits and equity investments in privately held businesses. 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. Equity investments in privately held businesses 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 these disclosures and therefore are excluded from the below table.

Separate account assets
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
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
Life insurance obligations include certain variable annuity contracts which contain guaranteed minimum income benefits that 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.

(dollars and euros in millions)

The following tables summarize the Company's assets that are measured at fair value on a recurring basis as of March 31, 2011 and December 31, 2010:

	As of March 31, 2011			
Assets, at Fair Value	**Level 1**	**Level 2**	**Level 3**	**Total**
U.S. government and agency securities	$ 2,153	$ 1,003	$ 15	$ 3,171
Mortgage and asset-backed securities:				
Residential	-	9,987	230	10,217
Commercial	-	2,407	4	2,411
Other mortgage and ABS securities	-	1,701	41	1,742
U.S. state and municipal	-	12,862	15	12,877
Corporate and other	-	23,416	674	24,090
Foreign government securities	-	4,727	167	4,894
Total fixed maturities, available for sale	2,153	56,103	1,146	59,402
Common stock	1,340	-	16	1,356
Preferred stock	-	521	4	525
Total equity securities, available for sale	1,340	521	20	1,881
Short-term investments	83	288	3	374
Other investments	-	56	301	357
Separate account assets	1,667	2,064	188	3,919
Other assets	9	39	21	69
Total assets	$ 5,252	$ 59,071	$ 1,679	$ 66,002
Liabilities, at Fair Value				
Life insurance obligations	$ -	$ -	$ (142)	$ (142)
Total liabilities	$ -	$ -	$ (142)	$ (142)

(dollars and euros in millions)

	As of December 31, 2010			
Assets, at Fair Value	**Level 1**	**Level 2**	**Level 3**	**Total**
U.S. government and agency securities	$ 2,152	$ 1,024	$ 16	$ 3,192
Mortgage and asset-backed securities:				
Residential	-	9,854	179	10,033
Commercial	-	2,453	20	2,473
Other mortgage and ABS securities	-	1,734	14	1,748
U.S. state and municipal	-	12,718	14	12,732
Corporate and other	-	23,204	771	23,975
Foreign government securities	-	4,286	114	4,400
Total fixed maturities, available for sale	2,152	55,273	1,128	58,553
Common stock	1,212	-	18	1,230
Preferred stock	-	499	4	503
Total equity securities, available for sale	1,212	499	22	1,733
Short-term investments	119	191	3	313
Other investments	-	54	115	169
Separate account assets	1,794	1,938	161	3,893
Other assets	9	52	23	84
Total assets	$ 5,286	$ 58,007	$ 1,452	$ 64,745
Liabilities, at Fair Value				
Life insurance obligations	$ -	$ -	$ (149)	$ (149)
Total liabilities	$ -	$ -	$ (149)	$ (149)

The Company did not have significant transfers between Levels 1 and 2 for the three months ended March 31, 2011.

(dollars and euros in millions)

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, 2011	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Purchases	Settlements	Sales	Transfer In to Level 3	Transfer Out of Level 3	Balance March 31, 2011
U.S. government and agency securities	$ 16	$ -	$ -	$ -	$ -	$ (1)	$ -	$ -	$ 15
Mortgage and asset-backed securities:									
Residential	179	-	(4)	147	-	-	-	(92)	230
Commercial	20	-	1	-	-	-	-	(17)	4
Other mortgage and ABS securities	14	-	-	3	-	-	24	-	41
U.S. state and municipal	14	-	1	-	-	-	-	-	15
Corporate and other	771	-	5	5	-	(44)	15	(78)	674
Foreign government securities	114	-	2	44	-	-	44	(37)	167
Total fixed maturities	1,128	-	5	199	-	(45)	83	(224)	1,146
Common stock	18	-	(2)	-	-	-	-	-	16
Preferred stock	4	-	-	-	-	-	-	-	4
Total equity securities	22	-	(2)	-	-	-	-	-	20
Short-term investments	3	-	-	3	-	(1)	1	(3)	3
Other investments	115	1	6	121	-	(5)	63	-	301
Separate account assets	161	4	2	9	-	(6)	18	-	188
Other assets	23	(2)	-	-	-	-	-	-	21
Total assets	$ 1,452	$ 3	$ 11	$ 332	$ -	$ (57)	$ 165	$ (227)	$ 1,679
Life insurance obligations	$ (149)	$ 3	$ -	$ -	$ 4	$ -	$ -	$ -	$ (142)
Total liabilities	$ (149)	$ 3	$ -	$ -	$ 4	$ -	$ -	$ -	$ (142)

(dollars and euros in millions)

	Balance January 1, 2010	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Net Purchases, (Sales) and (Maturities)	Transfer In and/ or Out of Level 3	Balance December 31, 2010
U.S. government and agency securities	$ 44	$ -	$ 1	$ (17)	$ (12)	$ 16
Mortgage and asset-backed securities:						
Residential	6	-	2	175	(4)	179
Commercial	15	-	(1)	17	(11)	20
Other mortgage and ABS securities	53	(1)	5	(26)	(17)	14
U.S. state and municipal	21	-	-	(1)	(6)	14
Corporate and other	848	2	(6)	(105)	32	771
Foreign government securities	7	-	(1)	107	1	114
Total fixed maturities	994	1	-	150	(17)	1,128
Common stock	14	1	2	6	(5)	18
Preferred stock	3	1	-	-	-	4
Total equity securities	17	2	2	6	(5)	22
Short-term investments	59	(2)	(3)	(51)	-	3
Other investments	64	14	(1)	3	35	115
Separate account assets	187	45	(34)	(37)	-	161
Other assets	19	1	-	3	-	23
Total assets	$ 1,340	$ 61	$ (36)	$ 74	$ 13	$ 1,452
Life insurance obligations	$ (143)	$ (33)	$ -	$ 27	$ -	$ (149)
Total liabilities	$ (143)	$ (33)	$ -	$ 27	$ -	$ (149)

Transfers in and out of Level 3 were primarily due to re-evaluation of 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 March 31, 2011.

For the three months ended March 31, 2011, there were no impairments recognized for items measured at fair value on a nonrecurring basis.

The Company has not applied ASC 820 to non-financial assets and liabilities.

(9) 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 is currently in coverage litigation with Kentile Floors, Inc., a former manufacturer of floor tile products, some of which contained asbestos. 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." Metex claims it has rights to the policies issued to Kentile, but this issue has not yet been resolved by the bankruptcy court.

In 2008, certain excess insurers of Kentile initiated a declaratory judgment action against Kentile, Metex and the other insurers of Kentile, including the Company, in state court in New York seeking, among other relief, products coverage without aggregate limits from the Company.

The Company intends to vigorously defend its position in this coverage litigation, including opposing any argument that the Kentile policies do not contain aggregate limits for products claims. Management believes that the ultimate liability, if any, to Metex 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 operation.

As of March 31, 2011, the Company had unfunded commitments in traditional private equity partnerships, real estate, and energy and other of $919, $315, and $1,281, respectively. As of March 31, 2011, the Company had commitments to purchase various residential mortgage-backed securities at a cost and fair value of $198 and various corporate and municipal securities at a cost and fair value of $49.

(10) SUBSEQUENT EVENTS

Management has assessed material subsequent events through May 5, 2011, the date the of the first quarter 2011 earnings release.

On March 21, 2011, the Company announced a tender offer for its 7.500% Senior Notes due 2036 (the "2036 Notes") and the Consent Only Offer for consents to terminate the Subject Replacement Capital Covenant, relating to the Company's Series C 10.75% Junior Subordinated Notes due 2088. The tender offer expired on April 15, 2011. The Company received tenders with respect to 94.51% of the aggregate principal amount of the 2036 Notes, and received consents in the Consent Only Offer in respect of an additional 3.64% of the aggregate principal amount of the 2036 Notes. The Company accepted all 2036 Notes that were validly tendered and not validly withdrawn pursuant to such tender offer. The Company paid approximately $449 in connection with such tender offer, including approximately $5 in accrued and unpaid interest, to holders of the 2036 Notes tendered in such tender offer. On that basis, the Subject Replacement Capital Covenant was terminated. After completion of the tender offer, $24 aggregate principal amount of the 2036 Notes remains outstanding.

In addition to the Subject Replacement Capital Covenant, the Company has a replacement capital covenant dated March 7, 2007 relating to the Company's Series A Junior Subordinated Notes and Series B Junior Subordinated Notes (the "Continuing Replacement Capital Covenant") which was not subject to the tender offer or the Consent Only Offer. The "Covered Debt" (as defined in the Continuing Replacement Capital Covenant) is the Company's Series C Junior Subordinated Notes, the holders of which have certain rights thereunder, and is not the 2036 Notes.

On April 28, 2011, affiliates of the Company and Anglo Irish Bank Corporation Limited entered into a joint venture for the purchase of those assets of Quinn Insurance Limited (Under Administration) ("QIL") representing QIL's marketing and underwriting of insurance policies in the Republic of Ireland. The Company is the indirect owner of 51% of the joint venture. According to the terms of the purchase agreement, the joint venture and Liberty affiliates agreed to provide for a fee certain transition and other services to various other business of QIL not being purchased. Subject to receipt of the necessary regulatory and court approvals to complete the purchase which are expected in the third or fourth quarter of 2011, the Company expects to fund its capital commitment of approximately €102 to the joint venture.

Significant tornado and storm activity in the month of April 2011 is expected to result in after tax catastrophe losses of $350 to $450.