Management's Discussion & Analysis of
Financial Condition and Results of Operations

Quarter Ended March 31, 2011

Management's Discussion & Analysis of Financial Condition and Results of Operations

The following discussion highlights significant factors influencing results of operations and changes in financial position of Liberty Mutual Holding Company Inc., the parent corporation of the Liberty Mutual Group of companies (the "Company" or "LMG"), for the three months ended March 31, 2011 and 2010. This Management's Discussion & Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the Company's 2010 Annual Report, March 31, 2011 Unaudited Consolidated Financial Statements and First Quarter 2011 Financial Supplement located on the Company's Investor Relations website at www.libertymutual.com/investors. The Company's discussions related to net income are presented in conformity with U.S. generally accepted accounting principles ("GAAP") on an after-tax basis. All other discussions are presented on a pre-tax GAAP basis, unless otherwise noted.

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Cautionary Statement Regarding Forward Looking Statements

This report contains forward looking statements that are intended to enhance the reader's ability to assess the Company's future financial and business performance. Forward looking statements include, but are not limited to, statements that represent the Company's beliefs concerning future operations, strategies, financial results or other developments, and contain words and phrases such as "may," "expects," "should," "believes," "anticipates," "estimates," "intends" or similar expressions. Because these forward looking statements are based on estimates and assumptions that are subject to significant business, economic and competitive uncertainties, many of which are beyond the Company's control or are subject to change, actual results could be materially different.

Some of the factors that could cause actual results to differ include, but are not limited to the following: the occurrence of catastrophic events (including terrorist acts, hurricanes, hail, tornados, snowfall and winter conditions); inadequacy of loss reserves; adverse developments involving asbestos, environmental or toxic tort claims and litigation; adverse developments in the cost, availability or ability to collect reinsurance; disruptions to the Company's relationships with its independent agents and brokers; financial disruption or a prolonged economic downturn; the performance of the Company's investment portfolios; a rise in interest rates; risks inherent in the Company's alternative investments in private limited partnerships and limited liability companies; difficulty in valuing certain of the Company's investments; subjectivity in the determination of the amount of impairments taken on the Company's investments; unfavorable outcomes from litigation and other legal proceedings, including the effects of emerging claim and coverage issues and investigations by state and federal authorities; the Company's exposure to credit risk in certain of its business operations; terrorist acts; the Company's inability to obtain price increases or maintain market share due to competition or otherwise; inadequacy of the Company's pricing models; changes to insurance laws and regulations; changes in the amount of statutory capital that the Company must hold to maintain its financial strength and credit ratings; regulatory restrictions on the Company's ability to change its methods of marketing and underwriting in certain areas; assessments for guaranty funds and mandatory pooling arrangements; a downgrade in the Company's claims-paying and financial strength ratings; the ability of the Company's subsidiaries to pay dividends to the Company; inflation, including inflation in medical costs and automobile and home repair costs; the cyclicality of the property and casualty insurance industry; political, legal, operational and other risks faced by the Company's international business; potentially high severity losses involving the Company's surety products; loss or significant restriction on the Company's ability to use credit scoring in the pricing and underwriting of personal lines policies; inadequacy of the Company's controls to ensure compliance with legal and regulatory standards; changes in federal or state tax laws; risks arising out of the Company's securities lending program; the Company's utilization of information technology systems and its implementation of technology innovations; difficulties with technology or data security; insufficiency of the Company's business continuity plan in the event of a disaster; the Company's ability to successfully integrate operations, personnel and technology from its acquisitions; insufficiency of the Company's enterprise risk management models and modeling techniques; and changing climate conditions. The Company's forward looking statements speak only as of the date of this report or as of the date they are made and should be regarded solely as the Company's current plans, estimates and beliefs. For a detailed discussion of these and other cautionary statements, visit the Company's Investor Relations website at www.libertymutual.com/investors. The Company undertakes no obligation to update these forward looking statements.

EXECUTIVE SUMMARY

The following highlights do not address all of the matters covered in the other sections of Management's Discussion & Analysis of Financial Condition and Results of Operations or contain all of the information that may be important to the investing public. This summary should be read in conjunction with the other sections of Management's Discussion & Analysis of Financial Condition and Results of Operations and the Company's unaudited financial statements.

Three Months Ended March 31, 2011 - Consolidated Results of Operations

- Revenues for the three months ended March 31, 2011 were $8.381 billion, an increase of $191 million or 2.3% over the same period in 2010.
- Net written premium for the three months ended March 31, 2011 was $7.583 billion, an increase of $374 million or 5.2% over the same period in 2010.
- Pre-tax operating income before private equity income for the three months ended March 31, 2011 was $231 million, a decrease of $73 million or 24.0% from the same period in 2010.
- Pre-tax operating income for the three months ended March 31, 2011 was $441 million, an increase of $53 million or 13.7% over the same period in 2010.
- Net income for the three months ended March 31, 2011 was $362 million, an increase of $47 million or 14.9% over the same period in 2010.
- Cash flow from operations for the three months ended March 31, 2011 was $606 million, an increase of $147 million or 32.0% over the same period in 2010.
- The combined ratio before catastrophes[1] and net incurred losses attributable to prior years[2] for the three months ended March 31, 2011 was 97.0%, a decrease of 0.3 points from the same period in 2010. Including the impact of catastrophes and net incurred losses attributable to prior years, the Company's combined ratio for the three months ended March 31, 2011 increased 0.3 points to 102.5%.

Financial Condition as of March 31, 2011

- Total assets were $113.7 billion as of March 31, 2011, an increase of $1.4 billion over December 31, 2010.
- Policyholders' equity was $17.5 billion as of March 31, 2011, an increase of $525 million over December 31, 2010.

[1]Catastrophes include all current and prior year catastrophe losses including assessments from the Texas Windstorm Insurance Association ("TWIA") and exclude losses related to the Company's external reinsurance assumed lines (assumed voluntary reinsurance and reinsurance assumed through Lloyd's Syndicate 4472) except for losses related to the 2004 U.S. Hurricanes, the 2005 U.S. Hurricanes, the September 2008 Hurricanes, the Japanese earthquake and tsunami, New Zealand earthquake, Australian floods, Cyclone Yasi and the Chilean earthquake. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

[2] Net incurred losses attributable to prior years is defined as incurred losses attributable to prior years (excluding prior year losses related to natural catastrophes and the events of September 11, 2001) including both earned premium attributable to prior years and amortization of retroactive reinsurance gains.

Subsequent Events

Tender Offer

On March 21, 2011 the Company announced a tender offer for its 7.500% Senior Notes due 2036 (the "2036 Notes") and a related solicitation of consents (the "Consent Only Offer") for consents to terminate the Replacement Capital Covenant dated as of May 29, 2008 (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 million in connection with such tender offer, including approximately $5 million 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 million 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.

Acquisition of Quinn Insurance Limited

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 million to the joint venture.

April Storms

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

CONSOLIDATED RESULTS OF OPERATIONS

The Company has identified consolidated pre-tax operating income ("PTOI") and PTOI before private equity income (loss) as non-GAAP financial measures. PTOI is defined by the Company as pre-tax income excluding net realized gains (losses), extraordinary items, discontinued operations and cumulative effects of changes in accounting principles. PTOI before private equity income (loss) is defined as PTOI excluding limited partnership results recognized on the equity method. PTOI before private equity income (loss) and PTOI are considered by the Company to be appropriate indicators of underwriting and operating results and are consistent with the way the Company internally evaluates performance. Net realized investment gains (losses) and limited partnership results are significantly impacted by both discretionary and economic factors and are not necessarily indicative of operating results, and the timing and amount of integration and other acquisition related costs are not connected to our management of the insurance and underwriting aspects of our business. Income taxes are significantly impacted by permanent differences. References to "direct written premium" represent the amount of premium recorded for policies issued during a fiscal period excluding assumed and ceded reinsurance. References to "net written premium" represent the amount of premium recorded for policies issued during a fiscal period including audits, retrospectively rated premium related to loss sensitive policies, and assumed premium, less ceded premium. Assumed and ceded reinsurance premiums include premium adjustments for reinstatement of coverage when a loss has used some portion of the reinsurance provided, generally under catastrophe treaties ("reinstatement premium"). In addition, the majority of workers compensation premium is adjusted to the "booked as billed" method through the Corporate & Other segment. The Company believes that net written premium is a performance measure useful to investors as it generally reflects current trends in the Company's sale of its insurance products.

The Company's discussions related to net income are presented on an after-tax GAAP basis. All other discussions are presented on a pre-tax GAAP basis, unless otherwise noted.

Effective January 1, 2010, the Company's Venezuelan operations began applying hyper-inflationary accounting, utilizing the U.S. dollar as the functional currency, which had no impact on consolidated policyholders' equity at January 1, 2010. However, on January 8, 2010, the Venezuelan government devalued its currency, announcing that the fixed official exchange rate would be changed to a dual exchange rate system. This dual exchange rate system for the fixed official exchange rate includes a 2.60 Bolivar Fuerte (BsF) rate to 1 U.S. dollar for food and other items as mandated by the Venezuelan government, and a 4.30 BsF to 1 U.S. dollar rate for all other items.

On December 30, 2010, the Venezuelan government announced the elimination of the 2.60 Bolivar Fuertes (BsF) to 1 U.S. dollar preferential exchange rate effective January 1, 2011, which was applicable to imports of food, medicine, other essential items and certain investments. The elimination of the preferential exchange rate resulted in an increase of $132 million to policyholders' equity in the first quarter of 2011.

Effective in the third quarter of 2010, for financial reporting purposes, Liberty Mutual Agency Corporation ("LMAC") became a Strategic Business Unit ("SBU") of Liberty Mutual Group replacing the former Agency Markets SBU. The financial results of LMAC differ from Agency Markets' results principally due to LMAC maintaining a dedicated investment portfolio and certain expenses incurred that are specific to LMAC. As such, results of LMAC are not directly comparable to the previously reported financial information for Agency Markets. All historical results have been restated to reflect this change.

Overview – Consolidated

Consolidated net written premium (NWP) by significant line of business was as follows:

	Three Months Ended March 31,		
$ in Millions	**2011**	**2010**	**Change**
Private passenger automobile	$2,510	$2,399	4.6%
Workers compensation	1,053	1,064	(1.0)
Homeowners	670	618	8.4
Commercial multiple peril / fire	606	588	3.1
International local businesses (excluding private passenger automobile)	517	449	15.1
Lloyd's Syndicate 4472	515	396	30.1
Commercial automobile	349	393	(11.2)
General liability	332	296	12.2
Group disability and life	207	171	21.1
Surety	189	174	8.6
LIU[1] third party	185	161	14.9
LIU inland marine program	96	157	(38.9)
LIU first party	71	60	18.3
Individual life	69	74	(6.8)
Assumed voluntary reinsurance	34	42	(19.0)
Other[2]	180	167	7.8
Total NWP[3]	$7,583	$7,209	5.2%

1 Liberty International Underwriters ("LIU").
2 Primarily includes net written premium from allied lines and domestic inland marine.
3 Net written premium associated with internal reinsurance has been re-allocated to the appropriate lines of business.

Consolidated net written premium by Strategic Business Unit ("SBU") was as follows:

	Three Months Ended March 31,		
$ in Millions	**2011**	**2010**	**Change**
LMAC	$2,503	$2,513	(0.4%)
International	1,990	1,747	13.9
Personal Markets	1,675	1,572	6.6
Commercial Markets	1,589	1,478	7.5
Corporate and Other	(174)	(101)	72.3
Total net written premium (NWP)	$7,583	$7,209	5.2%
Foreign exchange effect on growth			(0.2%)
NWP growth excluding foreign exchange			5.4%

Major drivers of net written premium growth were as follows:

	Three Months Ended March 31,			
$ in Millions	**2011**	**2010**	**$ Change**	**Points Attribution**
LMG NWP	$7,583	$7,209	$374	5.2
Components of Growth:				
-Domestic homeowners	815	752	63	0.9
-Homeowners quota share	(145)	(134)	(11)	(0.2)
Total Homeowners	670	618	52	0.7
International local businesses (excluding foreign exchange)	1,196	1,040	156	2.2
Foreign exchange	(12)	-	(12)	(0.2)
Domestic personal auto	1,836	1,808	28	0.4
Group disability and life	207	171	36	0.5
Surety	189	174	15	0.2
Individual life	69	74	(5)	(0.1)
Lloyd's Syndicate 4472	515	396	119	1.7
Other commercial lines	2,913	2,928	(15)	(0.2)
Total LMG NWP	$7,583	$7,209	$374	5.2

Consolidated net written premium by geographic distribution channels were as follows:

	Three Months Ended March 31,		
$ in Millions	**2011**	**2010**	**Change**
U.S.	$5,809	$5,720	1.6%
International[1]	1,774	1,489	19.1
Total NWP	$7,583	$7,209	5.2%

1 Excludes domestically written business in the International SBU.

Net written premium for the three months ended March 31, 2011 was $7.583 billion, an increase of $374 million over the same period in 2010. Significant changes by major line of business include:

- Private passenger automobile net written premium increased $111 million over the same period in 2010. The increase primarily reflects growth of policies in-force and rate increases in Personal Markets, as well as organic growth in International's local businesses, primarily in Latin America. The increase was partially offset by the timing of LMAC renewal premium due to the introduction of an annual private passenger automobile product in the second half of 2010.
- Workers compensation net written premium decreased $11 million from the same period in 2010 despite an increase of $100 million in audit and retrospectively rated premiums as a result of disciplined underwriting in a continued competitive market.
- Homeowners net written premium increased $52 million over the same period in 2010. The increase is primarily driven by Personal Markets and LMAC's growth in homeowners policies in-force and rate increases.
- International local businesses net written premium (excluding private passenger automobile) increased $68 million over the same period in 2010. The increase was driven by organic growth in Latin America, led by Venezuela (primarily due to the impact of inflation) and Brazil.
- Lloyd's Syndicate 4472 net written premium increased $119 million over the same period in 2010. The increase primarily reflects new business growth and an increase in inward reinstatement premium due to losses incurred on the Australian floods, the New Zealand earthquake and the Japanese earthquake and tsunami in 2011.

- Commercial automobile net written premium decreased $44 million from the same period in 2010. The decrease primarily reflects lower retention and less new business writings.
- General liability net written premium increased $36 million over the same period in 2010. The increase reflects business growth due to a Commercial Markets construction account with multi-year exposures.
- Group disability and life net written premium increased $36 million over the same period in 2010. The increase reflects a large disability account transfer and continued penetration of those markets.
- Surety net written premium increased $15 million over the same period in 2010. The increase is driven by favorable writings, particularly in the contract segment.
- LIU third party increased $24 million over the same period in 2010. The increase primarily reflects new business in casualty lines.
- LIU inland marine program net written premium decreased $61 million from the same period in 2010. The decrease reflects higher ceded premium due to a change in a reinsurance program.

More detailed explanations of the changes in net written premium by line of business are included in the related discussion of financial results for each segment.

For a more complete description of the Company's business operations, products and distribution channels, please visit the Company's Investor Relations web site at www.libertymutual.com/investors.

Results of Operations – Consolidated

	Three Months Ended March 31,		
$ in Millions	**2011**	**2010**	**Change**
Revenues	$8,381	$8,190	2.3%
PTOI before catastrophes, net incurred losses attributable to prior years and private equity income	608	636	(4.4)
Catastrophes[1,2]	(586)	(445)	31.7
Net incurred losses attributable to prior years:			
- Asbestos & environmental	(1)	(3)	(66.7)
- All other[3]	210	116	81.0
Pre-tax operating income before private equity income	231	304	(24.0)
Private equity income[4]	210	84	150.0
Pre-tax operating income	441	388	13.7
Realized gains, net	76	95	(20.0)
Income tax expense	(155)	(168)	(7.7)
Net income	$362	$315	14.9%
Cash flow from operations	$606	$459	32.0%

1 Catastrophes include all current and prior year catastrophe losses including assessments from TWIA and exclude losses related to the Company's external reinsurance assumed lines (assumed voluntary reinsurance and reinsurance assumed through Lloyd's Syndicate 4472) except for losses related to the 2004 U.S. Hurricanes, the 2005 Hurricanes, the September 2008 Hurricanes, the Japanese earthquake and tsunami, New Zealand earthquake, Australian floods, Cyclone Yasi and the Chilean earthquake. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

2 Catastrophes exclude the catastrophe losses ceded under the homeowners quota share agreement.

3 Net of earned premium attributable to prior years of $7 million and $12 million for the three months ended March 31, 2011 and 2010, respectively. Net of amortization of deferred gains on retroactive reinsurance of $99 million and $18 million for the three months ended March 31, 2011 and 2010, respectively. 2011 reflects a gain on commutation of two retroactive reinsurance contracts during the quarter.

4 Private equity income is included in net investment income in the accompanying statements of income.

PTOI for the three months ended March 31, 2011 was $441 million, an increase of $53 million over the same period in 2010. The increase reflects an increase in private equity income of $126 million due to improved market valuations, earned premium growth, the commutation of two workers compensation retroactive reinsurance agreements, and favorable net incurred losses attributable to prior years. These items were partially offset by higher catastrophe losses from Australian, New Zealand and Japanese events and higher weather-related catastrophe losses in the U.S. and deteriorating loss trends primarily in workers compensation.

Revenues for the three months ended March 31, 2011 were $8.381 billion, an increase of $191 million over the same period in 2010. The major components of revenues are net premium earned, net investment income, net realized investment gains, and fee and other revenues.

Net premium earned for the three months ended March 31, 2011 was $7.181 billion, an increase of $82 million over the same period in 2010. The increase primarily reflects rate increases and growth in policies in-force in the private passenger automobile and homeowners lines of business in Personal Markets, as well as organic growth in International, principally Latin America and Asia. These increases were partially offset by the impact of the Venezuelan devaluation in 2010 and foreign exchange.

Net investment income for the three months ended March 31, 2011 was $915 million, an increase of $105 million over the same period in 2010. The increase primarily reflects an increase in limited partnerships' and limited liability companies' income of $126 million as a result of improved valuations and a higher asset base, offset by lower yield.

Net realized investment gains for the three months ended March 31, 2011 were $76 million, a decrease of $19 million from the same period in 2010. The decrease primarily reflects sales undertaken during 2010 in connection with the shift in the Company's tactical allocation that did not recur in 2011, partially offset by gains recognized from the sale of common stock equities in 2011.

Fee and other revenues for the three months ended March 31, 2011 were $209 million, an increase of $23 million over the same period in 2010. The increase primarily reflects higher oil and gas revenues due to an increase in price and increased production.

Claims, benefits and expenses for the three months ended March 31, 2011 were $7.864 billion, an increase of $157 million over the same period in 2010. The increase reflects higher catastrophe losses from Australian, New Zealand and Japanese events and higher weather-related catastrophe losses in the U.S., higher losses and expenses consistent with business growth and unfavorable auto physical damage loss results (as compared to unusually favorable results in the prior year). These items were partially offset by favorable net incurred losses attributable to prior years, the commutation of two workers compensation retroactive reinsurance agreements, and a foreign exchange loss as a result of the Venezuelan devaluation in 2010 that did not recur.

Income tax expense for the three months ended March 31, 2011 was $155 million, a decrease of $13 million from the same period in 2010. The Company's effective tax rate for the three months ended March 31, 2011 was 30% compared to 35% for the same period in 2010. The decrease in effective tax rate from 2010 to 2011 was due to a $55 million one-time charge in 2010 related to federal health care legislation enacted in 2010 which eliminated the tax benefit associated with Medicare Part D subsidies. The Company's effective tax rate differs from the Federal statutory rate of 35% principally due to tax-exempt investment income.

Net income for the three months ended March 31, 2011 was $362 million, an increase of $47 million over the same period in 2010.

Cash flow from operations for the three months ended March 31, 2011 was $606 million, an increase of $147 million over the same period in 2010. The increase primarily reflects the settlement of a large asbestos claim that was paid in 2010 that did not recur in 2011, offset by increased ceded premium payments associated with the homeowners quota share treaty and higher tax payments.

	Three Months Ended March 31,		
CONSOLIDATED	**2011**	**2010[1]**	**Change (Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years			
Claims and claim adjustment expense ratio	68.2%	68.9%	(0.7)
Underwriting expense ratio	28.6	28.2	0.4
Dividend ratio	0.2	0.2	-
Subtotal	97.0	97.3	(0.3)
Catastrophes[2]	8.5	6.7	1.8
Net incurred losses attributable to prior years:			
- Asbestos & environmental	-	-	-
- All other	(3.0)	(1.8)	(1.2)
Total combined ratio[3]	102.5 %	102.2%	0.3

1 2010 combined ratio has been adjusted to exclude the impact of the Venezuelan devaluation for comparative purposes.

2 Catastrophes include all current and prior year catastrophe losses including assessments from TWIA and exclude losses related to the Company's external reinsurance assumed lines (assumed voluntary reinsurance and reinsurance assumed through Lloyd's Syndicate 4472) except for losses related to the 2004 U.S. Hurricanes, the 2005 U.S. Hurricanes, the September 2008 Hurricanes, the Japanese earthquake and tsunami, New Zealand earthquake, Australian floods, Cyclone Yasi and the Chilean earthquake. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

3 The combined ratio, expressed as a percentage, is a measure of underwriting profitability. This measure should only be used in conjunction with, and not in lieu of, underwriting income and may not be comparable to other performance measures used by the Company's competitors. The combined ratio is computed as the sum of the following property and casualty ratios: the ratio of claims and claim adjustment expense to earned premium; the ratio to earned premium of insurance operating costs plus amortization of deferred policy acquisition costs less fee income (primarily related to the Company's involuntary market servicing carrier operations and managed care income) and less installment charges; and the ratio of policyholder dividends to earned premium. Provisions for uncollectible premium and reinsurance are not included in the combined ratio unless related to an asbestos and environmental commutation.

The consolidated combined ratio before catastrophes and net incurred losses attributable to prior years for the three months ended March 31, 2011 was 97.0%, a decrease of 0.3 points from the same period in 2010. The decrease in the claims and claim adjustment expense ratio reflects favorable results in Latin America led by Venezuela and Lloyd's Syndicate 4472 business, partially offset by unfavorable auto physical damage losses and LMAC homeowners primarily due to unusually favorable trends experienced in 2010 and the impact of deteriorating loss trends in workers compensation. The increase in the underwriting expense ratio reflects an increase in LIU's inland marine business resulting from a change in a reinsurance program, higher amortization of deferred acquisition expenses in 2011 in LMAC and an increase in premium and other taxes. The increase was partially offset by premium rate increases.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three months ended March 31, 2011 was 102.5%, an increase of 0.3 points over the same period in 2010. The increase reflects higher catastrophe losses from Australian, New Zealand and Japanese events and weather-related catastrophe losses in the U.S., partially offset by the changes in the combined ratio previously discussed and favorable net incurred losses attributable to prior years. The increase in favorable net incurred losses attributable to prior years is primarily driven by Lloyd's Syndicate 4472 business and a gain on the commutation of two retroactive reinsurance agreements.

LIBERTY MUTUAL AGENCY CORPORATION

Overview – Liberty Mutual Agency Corporation

Liberty Mutual Agency Corporation ("LMAC") sells personal and commercial insurance products and services to individuals and small to mid-sized businesses through independent agents throughout the United States. Commercial lines products are offered through eight regional insurance companies that combine local underwriting, market knowledge and service orientation with the scale advantages of a national company. Personal lines products are distributed nationally under the Safeco brand, with an emphasis on service, and product and pricing sophistication. Liberty Mutual Surety is a leading provider of nationwide contract and commercial surety bonds to businesses of all sizes.

Effective in the third quarter of 2010, LMAC became an SBU replacing the former Agency Markets SBU. The financial results of LMAC differ from Agency Markets' results principally due to LMAC maintaining a dedicated investment portfolio and certain expenses incurred that are specific to LMAC. As such, results of LMAC are not directly comparable to the previously reported financial information for Agency Markets. All prior periods have been restated to reflect this change.

LMAC net written premium by segment was as follows:

	Three Months Ended March 31,		
$ in Millions	**2011**	**2010**	**Change**
Personal	$1,201	$1,198	0.3%
Commercial	1,079	1,108	(2.6)
Surety	187	174	7.5
Corporate and Other[1]	36	33	9.1
Total net written premium	$2,503	$2,513	(0.4%)

1 Includes run-off operations and internal reinsurance.

LMAC net written premium by line of business was as follows:

	Three Months Ended March 31,		
$ in Millions	**2011**	**2010**	**Change**
Commercial Lines			
Commercial multiple peril	$448	$455	(1.5%)
Commercial automobile	257	268	(4.1)
Workers compensation	219	223	(1.8)
Surety	189	174	8.6
General liability	115	122	(5.7)
Other	70	68	2.9
Subtotal	$1,298	$ 1,310	(0.9)
Personal Lines			
Private passenger automobile	$749	$781	(4.1)
Homeowners	349	323	8.0
Other	107	99	8.1
Subtotal	$1,205	$ 1,203	0.2
Total net written premium	$2,503	$2,513	(0.4%)

Net written premium for the three months ended March 31, 2011 was $2.503 billion, a decrease of $10 million from the same period in 2010. The decrease reflects lower private passenger automobile renewal premium due to the introduction of an annual private passenger automobile product in the second half of 2010, which resulted in formerly six month term policies that previously renewed in the first quarter now having annual renewal dates later in the year. Additionally, the quarter reflects a decline in commercial lines new business premium (excluding surety) due to the competitive market environment, and a lower average policy premium. These items were partially offset by higher personal lines rates, new business and retention, favorable commercial lines audit premiums, and favorable contract surety premium.

Results of Operations – Liberty Mutual Agency Corporation

	Three Months Ended March 31,		
$ in Millions	**2011**	**2010**	**Change**
Revenues	$2,812	$2,899	(3.0%)
PTOI before catastrophes, net incurred losses attributable to prior years and private equity income	$312	$390	(20.0)
Catastrophes[1]	(193)	(142)	35.9
Net incurred losses attributable to prior years:			
- Asbestos & environmental	-	-	-
- All other[2]	98	103	(4.9)
Pre-tax operating income before private equity income	$217	$351	(38.2)
Private equity income[3]	-	2	(100.0)
Pre-tax operating income	$217	$353	(38.5%)

1 Catastrophes include all current and prior year catastrophe losses. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

2 Net of earned premium attributable to prior years of zero and $10 million for the three months ended March 31, 2011 and 2010, respectively.

3 Private equity income is included in net investment income in the accompanying statements of income.

PTOI for the three months ended March 31, 2011 was $217 million, a decrease of $136 million from the same period in 2010. The decrease primarily reflects higher catastrophe and weather-related losses, lower net investment income, higher commercial lines liability loss ratios, and higher amortization of deferred acquisition costs in 2011. These items were partially offset by favorable loss trends in the private passenger automobile and surety lines of business.

Revenues for the three months ended March 31, 2011 were $2.812 billion, a decrease of $87 million from the same period in 2010. The major components of revenues are net premium earned, net investment income, and net realized gains.

Net premium earned for the three months ended March 31, 2011 was $2.554 billion, an increase of $14 million over the same period in 2010. The increase is primarily driven by written premium growth in 2010 in both the personal and surety business lines, partially offset by declines in commercial lines premium.

Net investment income for the three months ended March 31, 2011 was $204 million, a decrease of $44 million from the same period in 2010. The decrease is primarily driven by a lower invested asset base in 2011 due to intercompany dividends paid during 2010 and lower investment yields.

Net realized gains for the three months ended March 31, 2011 were $30 million, a decrease of $57 million from the same period in 2010. The decrease reflects gains related to internal transfers of investments between LMAC and affiliates in 2010 that did not recur and lower sales of fixed income securities in 2011.

Claims, benefits and expenses for the three months ended March 31, 2011 were $2.565 billion, an increase of $106 million over the same period in 2010. The increase primarily reflects higher catastrophe and weather-related losses, higher commercial lines liability losses, and higher deferred acquisition costs amortizing in 2011. These items were partially offset by favorable loss trends in the private passenger automobile and surety lines of business.

LIBERTY MUTUAL AGENCY CORPORATION	Three Months Ended March 31, 2011	2010	Change (Points)
Combined ratio before catastrophes and net incurred losses attributable to prior years			
Claims and claim adjustment expense ratio	62.9%	62.3%	0.6
Underwriting expense ratio	31.4	30.6	0.8
Dividend ratio	0.2	0.2	-
Subtotal	94.5	93.1	1.4
Catastrophes[1]	7.6	5.6	2.0
Net incurred losses attributable to prior years:			
- Asbestos & environmental	-	-	-
- All other	(3.8)	(4.1)	0.3
Total combined ratio	98.3%	94.6%	3.7

1 Catastrophes include all current and prior year catastrophe losses. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

The LMAC combined ratio before catastrophes and net incurred losses attributable to prior years for the three months ended March 31, 2011 was 94.5%, an increase of 1.4 points over the same period in 2010. The increase in the claims and claim adjustment expense ratio primarily reflects higher commercial lines liability losses and homeowners results due to unusually favorable loss activity in 2010, partially offset by favorable loss trends in the private passenger automobile and surety lines of business. The increase in the underwriting expense ratio is primarily driven by higher deferred acquisition costs amortizing in 2011.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three months ended March 31, 2011 was 98.3%, an increase of 3.7 points over the same period in 2010. The increase reflects the changes in the combined ratio previously discussed and higher catastrophe losses. Additionally, the current period reflects a decrease of 0.3 points in the amount of favorable net incurred losses attributable to prior years. Favorable net incurred losses attributable to prior years in both periods were primarily driven by favorable trends in the surety, commercial property, and private passenger automobile liability lines of business.

INTERNATIONAL

Overview – International

International sells insurance products and services through two distinct approaches: local businesses, which sell personal and small commercial lines products, and Liberty International Underwriters ("LIU") which sells specialty commercial insurance and reinsurance worldwide. International's local business operations consist of local insurance operations selling property, casualty, health and life insurance products to individuals and businesses in three geographic regions: Latin America, including Venezuela, Brazil, Colombia, Argentina and Chile; Europe, including Spain, Portugal, Turkey and Poland; and Asia, including Thailand, Singapore, China (including Hong Kong) and Vietnam. Private passenger automobile insurance is the single largest line of business. LIU writes casualty, specialty casualty, marine, energy, construction, aviation, property, crisis management and trade credit coverages and other specialty programs through offices in Asia, Australia, Europe, the Middle East, North America and Latin America. LIU, through its Lloyd's Syndicate 4472, also provides multi-line insurance and reinsurance worldwide.

International net written premium by market segment was as follows:

	Three Months Ended March 31,		
$ in Millions	**2011**	**2010**	**Change**
International Local Businesses Total	$1,174	$1,011	16.1%
- Latin America	803	658	22.0
- Europe	279	285	(2.1)
- Asia	92	68	35.3
Liberty International Underwriters	816	736	10.9
Total net written premium (NWP)	$1,990	$1,747	13.9%
Foreign exchange effect on growth			(0.6)
NWP growth excluding foreign exchange			14.5%

International's major product lines are as follows:
(1) Local businesses: personal, primarily private passenger automobile, and commercial insurance;
(2) Lloyd's Syndicate 4472 includes multi-line insurance and reinsurance with an emphasis on property, treaty casualty, personal accident, aviation and reinsurance;
(3) LIU inland marine program: handset protection coverage for lost or damaged devices;
(4) LIU third party: includes casualty, excess casualty, D&O, E&O, environmental impairment liability, railroad and other;
(5) LIU first party: includes marine, energy, construction, aviation and property; and
(6) LIU other: includes workers compensation, commercial automobile, surety, trade credit and crisis management.

International net written premium by line of business was as follows:

	Three Months Ended March 31,		
$ in Millions	**2011**	**2010**	**Change**
Local businesses – private passenger auto	$672	$587	14.5%
Local businesses – all other[1]	502	424	18.4
Lloyd's Syndicate 4472	454	353	28.6
LIU inland marine program	96	157	(38.9)
LIU third party	184	161	14.3
LIU first party	68	56	21.4
LIU other	14	9	55.6
Total net written premium	$1,990	$1,747	13.9%

1 Premium related to other personal lines and commercial insurance products sold by local business operations.

Net written premium for the three months ended March 31, 2011 was $1.990 billion, an increase of $243 million over the same period in 2010. The increase in the local businesses was driven largely by organic growth in Latin America, led by Venezuela (primarily due to the impact of inflation) and Brazil, as well as Asia. Though Europe, excluding Spain, also had organic growth, albeit to a lesser extent, Spain drove an overall decline for the region as a result of its continuing economic challenges. The increase in LIU was primarily driven by Lloyd's Syndicate 4472 due to new business growth and an increase in inward reinstatement premium due to losses incurred on the Australian floods, the New Zealand earthquake and the Japanese earthquake and tsunami in 2011 compared to the Chilean earthquake in 2010, and to a lesser extent, LIU third party due to new business from casualty lines. The increase was partially offset by an increase in the amount of ceded written premium in LIU's inland marine business due to a change in a reinsurance program resulting in less net premium retained. The increase in the quarter was also slightly offset by foreign exchange decline (approximately $11 million).

Results of Operations – International

	Three Months Ended March 31,		
$ in Millions	**2011**	**2010[1]**	**Change**
Revenues	$1,973	$1,967	0.3%
PTOI before catastrophes and net incurred losses attributable to prior years	153	142	7.7
Catastrophes[2]	(252)	(83)	NM
Net incurred losses attributable to prior years:			
- Asbestos & environmental	-	-	-
- All other[3]	39	(6)	NM
Pre-tax operating (loss) income	($60)	$53	NM

1 Effective January 1, 2010, the Venezuelan operations began applying hyper-inflationary accounting, utilizing the U.S. dollar as the functional currency.

2 Catastrophes include all current and prior year catastrophe losses including assessments from TWIA and exclude losses related to the Company's external reinsurance assumed lines (assumed voluntary reinsurance and reinsurance assumed through Lloyd's Syndicate 4472) except for losses related to the 2004 U.S. Hurricanes, the 2005 U.S. Hurricanes, the September 2008 Hurricanes, the Japanese earthquake and tsunami, New Zealand earthquake, Australian floods, Cyclone Yasi and the Chilean earthquake. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

3 Net of earned premium attributable to prior years of $7 million and ($1) million for the three months ended March 31, 2011 and 2010.

Pre-tax operating loss for the three months ended March 31, 2011 was $60 million, versus income of $53 million from the same period in 2010. The decrease reflects increased catastrophe losses, primarily in Lloyd's Syndicate 4472 business, due to the Japanese earthquake and tsunami, the New Zealand

earthquake, the Australian floods and Cyclone Yasi, partially offset by favorable net incurred loss development attributable to prior years, primarily within Lloyd's Syndicate 4472 business. The decrease also reflects the impact of the Venezuelan devaluation in 2010.

Revenues for the three months ended March 31, 2011 were $1.973 billion, an increase of $6 million over the same period in 2010. The primary components of revenues are net premium earned and net investment income.

Net premium earned for the three months ended March 31, 2011 was $1.786 billion, an increase of $10 million over the same period in 2010. The increase reflects the previously mentioned growth in net written premium in 2011 and the second half of 2010, partially offset by the impact of the Venezuelan devaluation in 2010 and foreign exchange.

Net investment income for the three months ended March 31, 2011 was $147 million, an increase of $4 million over the same period in 2010. The increase reflects a higher invested asset base due to the continued investment of cash flow from operations.

Claims, benefits and expenses for the three months ended March 31, 2011 were $2.027 billion, an increase of $132 million over the same period in 2010. The increase was primarily driven by an increase in losses within Lloyd's Syndicate 4472 business (excluding net incurred losses attributable to prior years) resulting from catastrophe losses, including the Japanese earthquake and tsunami, the New Zealand earthquake, the Australian floods and Cyclone Yasi, and to a lesser extent, higher current year claims and claims adjustment expenses primarily driven by the organic growth in Latin America. Partially offsetting these items was the foreign exchange loss as a result of the Venezuelan devaluation in 2010 (approximately $100 million) and $39 million of favorable prior year development in 2011 versus $6 million unfavorable in 2010.

	Three Months Ended March 31,		
INTERNATIONAL	**2011**	**2010[1]**	**Change (Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years			
Claims and claim adjustment expense ratio	66.7%	70.0%	(3.3)
Underwriting expense ratio	31.5	30.6	0.9
Dividend ratio	-	-	-
Subtotal	98.2	100.6	(2.4)
Catastrophes[2]	14.3	5.1	9.2
Net incurred losses attributable to prior years:			
- Asbestos & environmental	-	-	-
- All other	(2.2)	0.3	(2.5)
Total combined ratio	110.3%	106.0%	4.3

1 2010 combined ratio has been adjusted to exclude the impact of the Venezuelan devaluation for comparative purposes.

2 Catastrophes include all current and prior year catastrophe losses including assessments from TWIA and exclude losses related to the Company's external reinsurance assumed lines (assumed voluntary reinsurance and reinsurance assumed through Lloyd's Syndicate 4472) except for losses related to the 2004 U.S Hurricanes, the 2005 U.S. Hurricanes, the September 2008 Hurricanes, the Japanese earthquake and tsunami, New Zealand earthquake, Australian floods, Cyclone Yasi and the Chilean earthquake. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

The International combined ratio before catastrophes and net incurred losses attributable to prior years for the three months ended March 31, 2011 was 98.2%, a decrease of 2.4 points from the same period in 2010. The decrease was primarily driven by favorable claims and claims adjustment expense ratios in Latin America, led by Venezuela, and Lloyd's Syndicate 4472 business, reflecting the impact of a decrease in large loss events compared to 2010. The increase in the underwriting expense ratio was primarily related to LIU's inland marine business resulting from a change in a reinsurance program.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three months ended March 31, 2011 was 110.3%, an increase of 4.3 points over the same period in 2010. The change reflects the impact of unfavorable catastrophe net incurred losses including the Japanese earthquake and tsunami, the New Zealand earthquake, the Australian floods and Cyclone Yasi. The increase was partially offset by the previously mentioned changes in the combined ratio and an increase in the amount of favorable net incurred losses attributable to prior years primarily within Lloyd's Syndicate 4472 business.

PERSONAL MARKETS

Overview – Personal Markets

Personal Markets sells automobile, homeowners and other types of property and casualty insurance coverage, as well as a wide range of life and annuity products, to individuals in the United States. Products are distributed through more than 2,000 licensed captive sales representatives, approximately 500 licensed telesales counselors, third-party producers (including banks for life products) and the Internet. Personal Markets' largest source of new business is through its approximately 13,000 sponsored affinity groups (including employers, professional associations and alumni associations, credit unions, and other partnerships).

Personal Markets net written premium by line of business was as follows:

	Three Months Ended March 31,		
$ in Millions	**2011**	**2010**	**Change**
Private passenger automobile	$1,085	$1,025	5.9%
Homeowners and other	523	473	10.6
Individual life	67	74	(9.5)
Total net written premium	$1,675	$1,572	6.6%

Net written premium for the three months ended March 31, 2011 was $1.675 billion, an increase of $103 million over the same period in 2010.

Private passenger automobile net written premium for the three months ended March 31, 2011 was $1.085 billion, an increase of $60 million over the same period in 2010. The increase reflects 3.1% growth in policies in-force as compared to March 31, 2010 and rate increases.

Homeowners and other net written premium for the three months ended March 31, 2011 was $523 million, an increase of $50 million over the same period in 2010. The increase reflects 3.8% growth in homeowners policies in-force as compared to March 31, 2010 and rate increases. Approximately one point of the net written premium growth is attributable to the ongoing GEICO relationship, which allows GEICO to offer the Company's homeowners products to its automobile prospects and customers. The policy growth was achieved despite coastal management initiatives that reduced the business unit's coastal exposure from the prior year.

Individual life net written premium for the three months ended March 31, 2011 was $67 million, a decrease of $7 million from the same period in 2010. The decrease reflects lower structured settlements sales.

Results of Operations – Personal Markets

	Three Months Ended March 31,		
$ in Millions	**2011**	**2010**	**Change**
Revenues	$1,914	$1,823	5.0%
PTOI before catastrophes and net incurred losses attributable to prior years	285	256	11.3
Catastrophes[1]	(121)	(135)	(10.4)
Net incurred losses attributable to prior years:			
- Asbestos & environmental	-	-	-
- All other	5	7	(28.6)
Pre-tax operating income	$169	$128	32.0%

1 Catastrophes include all current and prior year catastrophe losses including assessments from TWIA. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

PTOI for the three months ended March 31, 2011 was $169 million, an increase of $41 million over the same period in 2010. The increase primarily reflects earned premium growth as well as improved catastrophe and non-catastrophe loss experience.

Revenues for the three months ended March 31, 2011 were $1.914 billion, an increase of $91 million over the same period in 2010. The major components of revenues are net premium earned and net investment income.

Net premium earned for the three months ended March 31, 2011 was $1.690 billion, an increase of $101 million over the same period in 2010. The increase reflects the earned premium associated with the changes in net written premium previously discussed.

Net investment income for the three months ended March 31, 2011 was $191 million, a decrease of $1 million from the same period in 2010. The decrease primarily reflects lower investment yields, mostly offset by a higher invested asset base due to the continued investment of cash flow from operations.

Claims, benefits and expenses for the three months ended March 31, 2011 were $1.746 billion, an increase of $52 million over the same period in 2010. The increase reflects higher losses and expenses consistent with business growth and higher auto physical damage losses. Auto physical damage losses in 2011 are more in line with expectations following an unusually favorable quarter in 2010. These items were partially offset by favorable non-catastrophe loss trends in the homeowners product line and lower catastrophe losses.

PERSONAL MARKETS	Three Months Ended March 31, 2011	2010	Change (Points)
Combined ratio before catastrophes and net incurred losses attributable to prior years			
Claims and claim adjustment expense ratio	63.6%	64.9%	(1.3)
Underwriting expense ratio	24.2	25.1	(0.9)
Dividend ratio	-	-	-
Subtotal	87.8	90.0	(2.2)
Catastrophes[1]	7.5	8.9	(1.4)
Net incurred losses attributable to prior years:			
- Asbestos & environmental	-	-	-
- All other	(0.4)	(0.5)	0.1
Total combined ratio	94.9%	98.4%	(3.5)

1 Catastrophes include all current and prior year catastrophe losses including assessments from TWIA. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

The Personal Markets combined ratio before catastrophes and net incurred losses attributable to prior years for the three months ended March 31, 2011 was 87.8%, a decrease of 2.2 points from the same period in 2010. The decrease in the claims and claim adjustment expense ratio reflects improved results in the homeowners line of business, partially offset by unfavorable auto physical damage losses primarily due to unusually favorable trends experienced in 2010. The underwriting expense ratio declined compared to the prior period primarily as a result of premium rate increases.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three months ended March 31, 2011 was 94.9%, a decrease of 3.5 points from the same period in 2010. The decrease reflects changes in the combined ratio previously discussed and lower catastrophe losses.

COMMERCIAL MARKETS

Overview – Commercial Markets

Commercial Markets sells a wide array of property & casualty and group benefits insurance coverages through independent agents, brokers and benefit consultants throughout the United States. Commercial Markets P&C provides commercial lines products and services to mid-sized and large businesses (with an annual cost of risk of $150,000 or more). Group Benefits provides mid-sized and large businesses with short- and long-term disability insurance products and administrative services and group life insurance through Liberty Life Assurance Company of Boston, a subsidiary of the Company. Summit provides workers compensation in the Southeast (mainly Florida) primarily to small businesses. Liberty Mutual Reinsurance provides reinsurance programs to domestic and foreign insurance and reinsurance companies. The Company is also a servicing carrier for state based workers compensation involuntary market pools.

On July 14, 2010, Commercial Markets established a new distribution and service organization, Commercial Markets P&C, combining Middle Market, National Market, Specialty Lines and Liberty Mutual Property. This operating model provides agents and brokers a single point of entry for accessing Commercial Markets' property, casualty and specialty lines insurance as well as claims and loss control services for national accounts and mid-sized business clients.

Commercial Markets net written premium by market segment was as follows:

	Three Months Ended March 31,		
$ in Millions	**2011**	**2010**	**Change**
Commercial Markets P&C[1]	$1,159	$1,079	7.4%
Group Benefits	207	171	21.1
Summit	166	160	3.8
Liberty Mutual Reinsurance	57	67	(14.9)
Other Markets	-	1	(100.0)
Total net written premium	$1,589	$1,478	7.5%

1 Effective July 14, 2010, net written premium associated with Middle Market, National Market, Specialty Lines and Liberty Mutual Property were combined into Commercial Markets P&C. The prior periods have been restated to reflect this change.

Commercial Markets net written premium by line of business was as follows:

	Three Months Ended March 31,		
$ in Millions	**2011**	**2010**	**Change**
Workers compensation	$944	$882	7.0%
Group disability and life	207	171	21.1
General liability	169	128	32.0
Commercial multiple peril / fire	107	95	12.6
Commercial automobile	93	120	(22.5)
Assumed voluntary reinsurance	34	42	(19.0)
Other	35	40	(12.5)
Total net written premium	$1,589	$1,478	7.5%

Net written premium for the three months ended March 31, 2011 was $1.589 billion, an increase of $111 million over the same period in 2010. The increase primarily reflects an increase in the workers compensation and general liability lines of business due to a construction account with multi-year exposures, an increase of $85 million in audit and retrospective workers compensation premium, and a large disability account transfer along with continued penetration of the group disability and life markets. Also contributing to the increase were improved retention and new business growth in commercial multi-peril/fire. Partially offsetting these increases were lower retention and less new business writings in commercial automobile and a decrease in assumed voluntary reinsurance premium due to a change in a program structure.

Results of Operations – Commercial Markets

	Three Months Ended March 31,		
$ in Millions	**2011**	**2010**	**Change**
Revenues	$1,559	$1,604	(2.8%)
PTOI before catastrophes and net incurred losses attributable to prior years	81	89	(9.0)
Catastrophes[1]	(50)	(21)	138.1
Net incurred losses attributable to prior years:			
- Asbestos & environmental	-	-	-
- All other[2]	(3)	9	NM
Pre-tax operating income	$28	$77	(63.6%)

1 Catastrophes include all current and prior year catastrophe losses including assessments from TWIA and exclude losses related to the Company's assumed voluntary reinsurance except for losses related to the 2004 U.S. Hurricanes, the 2005 U.S. Hurricanes, the September 2008 Hurricanes, the Japanese earthquake and tsunami, New Zealand earthquake, Australian floods, and the Chilean earthquake. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

2 Net of earned premium attributable to prior years of zero and $3 million for the three months ended March 31, 2011 and 2010, respectively. Net of amortization of deferred gains on retroactive reinsurance of $13 million for the three months ended March 31, 2010. In 2011, the Company reclassified the retroactive reinsurance results to Corporate and Other.

PTOI for the three months ended March 31, 2011 was $28 million, a decrease of $49 million from the same period in 2010. The decrease reflects deteriorating loss trends in workers compensation, higher catastrophe losses attributable to the Japanese earthquake and tsunami, New Zealand earthquake, and Australian floods, and lower net investment income. The decreases were partially offset by the reclassification of retroactive reinsurance results to Corporate and Other in 2011 and a decrease in non-catastrophe related property losses.

Revenues for the three months ended March 31, 2011 were $1.559 billion, a decrease of $45 million from the same period in 2010. The major components of revenues are net premium earned, net investment income and fee and other revenues.

Net premium earned for the three months ended March 31, 2011 was $1.276 billion, a decrease of $30 million from the same period in 2010. The decrease in earned premium primarily reflects lower business in-force in workers compensation and other lines. The decrease was partially offset by increases in net written premium in the group disability and life markets.

Net investment income for the three months ended March 31, 2011 was $217 million, a decrease of $13 million from the same period in 2010. The decrease primarily reflects lower investment yields, partially offset by a higher invested asset base due to the continued investment of cash flow from operations.

Fee and other revenues for the three months ended March 31, 2011 were $66 million, a decrease of $2 million from the same period in 2010. The decrease primarily reflects lower commission revenues from the Company's servicing carrier operations due to lower involuntary market premium volume. As a servicing carrier, the Company receives fee income for performing certain underwriting, claims and administrative services for all participating involuntary pool members.

Claims, benefits, and expenses for the three months ended March 31, 2011 were $1.531 billion, an increase of $4 million over the same period in 2010. The increase primarily reflects higher catastrophe losses attributable to the Japanese earthquake and tsunami, New Zealand earthquake, and Australian floods. These increases were partially offset by reductions in compensation-related and other general administrative expenses and the reclassification of retroactive reinsurance results to Corporate and Other in 2011.

	Three Months Ended March 31,		
COMMERCIAL MARKETS	**2011**	**2010**	**Change (Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years			
Claims and claim adjustment expense ratio	85.6%	83.8%	1.8
Underwriting expense ratio	24.8	24.2	0.6
Dividend ratio	0.7	0.7	-
Subtotal	111.1	108.7	2.4
Catastrophes[1]	4.8	1.8	3.0
Net incurred losses attributable to prior years:			
- Asbestos & environmental	-	-	-
- All other	0.2	(0.8)	1.0
Total combined ratio	116.1%	109.7 %	6.4

1 Catastrophes include all current and prior year catastrophe losses including assessments from TWIA and exclude losses related to the Company's assumed voluntary reinsurance except for losses related to the 2004 U.S. Hurricanes, the 2005 U.S. Hurricanes, the 2008 Hurricanes, the Japanese earthquake and tsunami, New Zealand earthquake, Australian floods, and the Chilean earthquake. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

The Commercial Markets combined ratio before catastrophes and net incurred losses attributable to prior years for the three months ended March 31, 2011 was 111.1%, an increase of 2.4 points over the same period in 2010. The increase in the claims and claim adjustment expense ratio primarily reflects the impact of deteriorating loss trends in workers compensation. The increase in the underwriting expense ratio primarily reflects an increase in premium and other taxes.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three months ended March 31, 2011 was 116.1%, an increase of 6.4 points over the same

period in 2010. The increase reflects the changes in the combined ratio previously discussed as well as higher catastrophe losses attributable to the Japanese earthquake and tsunami, New Zealand earthquake, and Australian floods. The increase also reflects unfavorable net incurred losses attributable to prior years which were offset by the amortization of deferred gains on retroactive reinsurance in 2010 which are now reported through Corporate and Other in 2011.

CORPORATE AND OTHER

Overview – Corporate and Other

Corporate and Other includes the following significant items:

- Certain internal discontinued operations composed of: asbestos, environmental, and toxic tort exposures, the run-off of certain LMAC business, the run-off of the California workers compensation business of Golden Eagle Insurance Corporation, certain distribution channels related to PruPac, pre-2004 Commercial Markets assumed voluntary reinsurance business and Commercial Markets pre-2005 fully insured workers compensation business.

- Interest expense on the Company's outstanding debt.

- Certain risks of its SBUs that the Company reinsures as part of its risk management program.

- The Company reports its written premiums on workers compensation contracts on the "booked as billed" method. Commercial Markets reports workers compensation written premiums on the "booked at inception" method. Corporate and Other results reflect the difference between these two methods.

- The Company discounts the long-term indemnity portion of its settled unpaid workers compensation claims at risk-free discount rates. Commercial Markets reports their discount based on statutory discount rates. Corporate and Other results reflect the difference between the statutory and risk-free rate.

- Costs associated with certain long-term compensation plans and other corporate costs not allocated to the SBUs.

- For presentation in this MD&A, excluding LMAC, domestic property and casualty operations' investment income is allocated to the business units based on planned ordinary investment income returns by investment category. Investments are allocated to the business units in an amount equal to their respective liabilities net of insurance assets (reinsurance, premiums receivable, etc.) plus allocated statutory policyholders' surplus. The difference between allocated net investment income and actual net investment income is included in Corporate and Other.

- Income (loss) related to limited partnership and limited liability company investments, excluding LMAC activity.

- Fee and other revenues include revenues from the Company's wholly owned subsidiary, Liberty Energy, and lease and other income on investment properties. Liberty Energy generates revenue from the production and sale of oil and gas.

- Certain retroactive reinsurance agreements previously reported within Commercial Markets.

Corporate and Other net written premium by line of business was as follows:

	Three Months Ended March 31,		
$ in Millions	**2011**	**2010**	**Change**
Reinsurance, net	($60)	($57)	5.3%
Workers compensation[1]	(114)	(46)	147.8
Other	-	2	(100.0)
Total net written premium	($174)	($101)	72.3%

[1] Booked as billed adjustment.

Net written premium for the three months ended March 31, 2011 was ($174) million, a decrease of $73 million from the same period in 2010. The change is primarily due to an increase in ceded premium related to the Personal Markets homeowners quota share program and an increase in the Company's workers compensation "booked as billed" adjustment, partially offset by an increase in assumed premium related to the Company's internal reinsurance program.

Results of Operations – Corporate and Other

	Three Months Ended March 31,		
$ in Millions	**2011**	**2010**	**Change**
Revenues	$123	($103)	NM
Pre-tax operating loss before catastrophes, net incurred losses attributable to prior years and private equity income	($223)	($241)	(7.5%)
Catastrophes[1,2]	30	(64)	NM
Net incurred losses attributable to prior years:			
- Asbestos & environmental	(1)	(3)	(66.7)
- All other[3]	71	3	NM
Pre-tax operating loss before private equity income	(123)	(305)	(59.7)
Private equity income [4]	210	82	156.1
Pre-tax operating income (loss)	$87	($223)	NM

1 Catastrophes include all current and prior year catastrophe losses including assessments from TWIA and exclude losses related to the Company's assumed voluntary reinsurance except for losses related to the 2004 U.S. Hurricanes, the 2005 U.S. Hurricanes, the September 2008 Hurricanes, the Japanese earthquake and tsunami, New Zealand earthquake, Australian floods, Cyclone Yasi and the Chilean earthquake. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums of zero and $7 million for the three months ended March 31, 2011 and 2010, respectively.

2 Catastrophes exclude the catastrophe losses ceded under the homeowners quota share agreement.

3 Net of amortization of deferred gains on retroactive reinsurance of $99 million and $5 million for the three months ended March 31, 2011 and 2010, respectively. 2011 reflects a gain on commutation of two retroactive reinsurance contracts during the quarter. 2011 includes certain retroactive reinsurance agreements previously reported within Commercial Markets.

4 Private equity income is included in net investment income in the accompanying statements of income.

NM = Not Meaningful

Pre-tax operating income for the three months ended March 31, 2011 was $87 million, versus a loss of $223 million in the same period in 2010. The increase is primarily driven by the commutation of two workers compensation retroactive reinsurance agreements, internally assumed catastrophe losses related to the Chilean earthquake that occurred in 2010 that did not recur, and the increase in limited partnerships' and limited liability companies' income as a result of improved equity valuations over the same period in 2010.

Revenues for the three months ended March 31, 2011 were $123 million, an increase of $226 million over the same period in 2010. The major components of revenues include net premium earned, net investment income, net realized gains (losses), and fee and other revenues.

Net premium earned for the three months ended March 31, 2011 was ($125) million, a decrease of $13 million from the same period in 2010. The decrease reflects the earned premium associated with the changes in reinsurance net written premium previously discussed.

Net investment income for the three months ended March 31, 2011 was $156 million, an increase of $159 million over the same period in 2010. The increase reflects an increase in limited partnerships' and limited liability companies' income as a result of improved equity valuations.

Net realized investment gains for the three months ended March 31, 2011 were $41 million, an increase of $53 million over the same period in 2010. The increase primarily reflects the elimination of gains related to internal transfers of investments between LMAC and the remainder of the Company in 2010, which did not recur in 2011.

Fee and other revenues for the three months ended March 31, 2011 were $51 million, an increase of $27 million over the same period in 2010. The increase primarily reflects higher oil and gas revenues due to increased production.

Claims, benefits and expenses for the three months ended March 31, 2011 were ($5) million, a decrease of $137 million from the same period in 2010. The decrease is due to the commutation of two workers compensation retroactive reinsurance agreements and internally assumed catastrophe losses related to the Chilean earthquake that occurred in 2010 that did not recur, partially offset by oil and gas operating expenses and depreciation.

INVESTMENTS

General

The Company's investment strategy seeks long-term returns through disciplined security selection, portfolio diversity and an integrated approach to risk management. The Company selects and monitors investments to balance the goals of safety, stability, liquidity, growth and after-tax total return with its need to comply with regulatory investment requirements. A relatively safe and stable income stream is achieved by maintaining a broadly based portfolio of investment grade bonds. These holdings are supplemented by investments in additional asset types with the objective of further enhancing the portfolio's diversification and expected returns. These additional asset types include commercial mortgages and other real estate financing investments, non-investment grade bonds, including syndicated bank loans, common and preferred stock, private equity and direct investments in energy ventures. Risk management is accomplished through asset liability management (including both interest rate risk and foreign currency risk), diversification, credit limits and a careful analytic review of each investment decision.

The Company's investment policy and strategy are reviewed and approved by the Investment Committee of its Board of Directors, which meets on a regular basis to review and consider investment activities, tactics and new investment classes. In addition, the Company has an experienced team of investment personnel responsible for managing and administering the investment portfolios of its domestic and foreign insurance operations.

Invested Assets (including cash and cash equivalents)

The following table summarizes the Company's invested assets by asset category as of March 31, 2011 and December 31, 2010:

$ in Millions	**As of March 31, 2011**		**As of December 31, 2010**	
Invested Assets by Type	**Carrying Value**	**% of Total**	**Carrying Value**	**% of Total**
Fixed maturities, available for sale, at fair value	$59,402	83.6%	$58,553	83.9%
Equity securities, available for sale, at fair value	1,881	2.6	1,733	2.5
Limited partnerships and limited liability companies	3,111	4.4	2,860	4.1
Commercial mortgage loans	1,189	1.7	1,206	1.7
Short-term investments	374	0.5	313	0.4
Other investments	396	0.6	207	0.3
Cash and cash equivalents	4,701	6.6	4,930	7.1
Total Invested Assets	$71,054	100.0%	$69,802	100.0%

Total invested assets as of March 31, 2011 were $71.054 billion, an increase of $1.252 billion or 1.8% over December 31, 2010. The increase reflects a valuation increase from foreign exchange largely driven by the elimination of the Venezuelan preferential exchange rate in January 2011, an increase in the valuations of private limited partnerships, and continued investment of cash flows from operations. Partially offsetting these increases was a decrease in unrealized gains due to an increase in interest rates.

Fixed maturities as of March 31, 2011 were $59.402 billion, an increase of $849 million or 1.4% over December 31, 2010. The increase reflects fair value increases due to a valuation increase from foreign exchange as previously discussed and continued investment of cash flows from operations. These increases were offset by decreases in unrealized gains due to an increase in interest rates partially offset by a tightening in credit spreads.

Equity securities available for sale as of March 31, 2011 were $1.881 billion ($1.356 billion common stock and $525 million preferred stock) versus $1.733 billion as of December 31, 2010 ($1.230 billion common stock and $503 million preferred stock), an increase of $148 million or 8.5% over December 31, 2010. Of the $1.356 billion of common stock at March 31, 2011, $319 million relates to securities associated with non-guaranteed unit linked products where the policyholder bears the investment risk. The increase in total equity securities available for sale is consistent with a shift in the Company's tactical allocation as well as the broader equity market performance.

Investments in limited partnerships and limited liability companies as of March 31, 2011 were $3.111 billion, an increase of $251 million or 8.8% over December 31, 2010. These investments consist of traditional private equity partnerships of $1.900 billion, other partnerships (primarily energy) of $724 million, and real estate partnerships of $487 million. The increase primarily reflects an increase in value and new investments. The Company's investments in limited partnerships and limited liability companies are long-term in nature and highly illiquid. The Company believes these investments offer the potential for superior long-term returns and are appropriate in the overall context of a diversified portfolio.

Commercial mortgage loans as of March 31, 2011 were $1.189 billion (net of $14 million of loan loss reserves or 1.2% of the outstanding loan portfolio), a decrease of $17 million or 1.4% from December 31, 2010. The decrease reflects $17 million in principal repayments. The entire commercial loan portfolio is U.S. based. As of March 31, 2011, the average total loan size was $1.4 million and the average loan participation size was $0.4 million. The number of loans in the portfolio decreased from 2,948 at December 31, 2010 to 2,932 at March 31, 2011. Approximately 90% of the loans are full or partial recourse to borrowers.

Regarding fair value measurements, as of March 31, 2011, excluding separate accounts and other assets, the Company reflected $3.576 billion as level 1 (quoted prices in active markets) primarily consisting of U.S. Treasuries and common equity securities. The majority of the Company's invested assets are reported as level 2 (quoted prices from other observable inputs). As of March 31, 2011, the Company reported $56.968 billion as level 2, consisting primarily of various fixed maturity securities. Finally, the Company reported $1.470 billion as level 3 (unobservable inputs), primarily consisting of international and privately held securities for which a market price is not readily observable.

As of March 31, 2011, the Company had unfunded commitments in traditional private equity partnerships, real estate, and energy and other of $919 million, $315 million and $1.281 billion, 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 million and various corporate and municipal securities at a cost and fair value of $49 million.

As of March 31, 2011, no single issuer, excluding U.S. Treasuries, agency securities and mortgage-backed securities, accounted for more than 1.3% of invested assets.

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

$ in Millions **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	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

$ in Millions **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	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

The following table summarizes the Company's mortgage and asset-backed fixed maturity portfolio by credit quality as of March 31, 2011:

$ in Millions	As of March 31, 2011							
Mortgage & Asset-Backed Fixed Maturities by Credit Quality	**AAA**	**AA**	**A**	**BBB**	**BB**	**B or Lower**	**Total**	**% of Total**
SBA loans	$1,451	$-	$-	$-	$-	$-	$1,451	10.1%
GNMA residential mortgage	3,258	-	-	-	-	-	3,258	22.6
FNMA residential mortgage	3,173	-	-	-	-	-	3,173	22.1
FHLMC residential mortgage	3,120	-	-	-	-	-	3,120	21.7
Prime residential mortgage	139	33	15	-	1	239	427	3.0
Alt-A residential mortgage	61	8	-	-	-	127	196	1.4
Sub-prime residential mortgage	4	4	9	7	1	18	43	0.3
Commercial mortgage backed securities	2,237	149	11	14	-	-	2,411	16.8
Non-mortgage asset backed securities	197	21	27	28	8	10	291	2.0
Total	$13,640	$215	$62	$49	$10	$394	$14,370	100.0%
% of Total	95.0%	1.5%	0.4%	0.3%	0.1%	2.7%	100.0%	

Approximately 77% of the Company's securitized portfolio is explicitly backed by the U.S. government (GNMA and SBA) or by government-sponsored entities (FHLMC and FNMA). 95% of the mortgage and asset-backed holdings are rated AAA. The commercial mortgage backed securities portfolio is well diversified and of high quality with 99% rated AA or above with approximately 18% of the underlying collateral having been defeased with U.S. Treasuries.

The following table summarizes the Company's allocation of fixed maturities by credit quality as of March 31, 2011 and December 31, 2010:

$ in Millions	As of March 31, 2011		As of December 31, 2010	
Fixed Maturities by Credit Quality[1]	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
AAA	$23,291	39.2%	$23,169	39.6%
AA+, AA, AA-	9,664	16.3	9,749	16.6
A+, A, A-	10,473	17.6	10,350	17.7
BBB+, BBB, BBB-	9,481	16.0	9,100	15.5
BB+, BB, BB-	2,747	4.6	2,730	4.7
B+, B, B-	2,890	4.9	2,553	4.4
CCC or lower	856	1.4	902	1.5
Total fixed maturities	$59,402	100.0%	$58,553	100.0%

[1]For purposes of this disclosure, credit quality is primarily based upon Standard & Poor's ratings.

The Company's allocation to investment grade securities as of March 31, 2011 remained consistent with December 31, 2010 at 89%. Overall, the average credit quality rating stands at A+ as of March 31, 2011. The Company's holdings of below investment grade securities primarily consist of an actively managed diversified portfolio of high yield securities and loans within the domestic insurance portfolios and investments in emerging market sovereign and corporate debt primarily in support of the Company's international insurance companies.

The following table summarizes the Company's allocation of fixed maturities by maturity date as of March 31, 2011 and December 31, 2010:

$ in Millions	**As of March 31, 2011**		**As of December 31, 2010**	
Fixed Maturities by Maturity Date	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
1 year or less	$2,279	3.8%	$2,458	4.2%
Over 1 year through 5 years	17,074	28.7	16,408	28.0
Over 5 years through 10 years	13,951	23.5	13,391	22.9
Over 10 years	11,728	19.8	12,042	20.6
Mortgage and asset-backed securities	14,370	24.2	14,254	24.3
Total fixed maturities	$59,402	100.0%	$58,553	100.0%

During the first quarter of 2011, after taking into consideration changes in investment opportunities and its view of the current and prospective business and economic environment, the Company made only minor adjustments to the average duration of its investment portfolio.

Net Investment Income

The following table summarizes the Company's net investment income for the three months ended March 31, 2011 and 2010:

$ in Millions	**Three Months Ended March 31,**	
Net Investment Income	**2011**	**2010**
Taxable interest income	$598	$586
Tax-exempt interest income	117	153
Dividends	11	10
Limited partnerships and limited liability companies	210	84
Commercial mortgage loans	19	18
Other investment income	2	-
Gross investment income	957	851
Investment expenses	(42)	(41)
Net investment income	$915	$810

Net investment income for the three months ended March 31, 2011 was $915 million, an increase of $105 million over the same period in 2010. The increase reflects an increase in limited partnerships' and limited liability companies' income of $126 million, as a result of improved valuations. The increase in taxable interest income and the decrease in tax-exempt income reflect a continued shift in the Company's tactical allocation.

Net Realized Investment Gains (Losses)

The following tables summarize the Company's net realized investment gains (losses) for the three months ended March 31, 2011 and 2010:

$ in Millions Net Realized Investment Gains (Losses)	Sales & Dispositions	Impairments	Change in Derivatives Value	Total
Three Months Ended March 31, 2011:				
Fixed maturities	$43	($18)	$-	$25
Common and preferred stock	40	-	-	40
Other	11	-	-	11
Total	$94	($18)	$-	$76
Three Months Ended March 31, 2010:				
Fixed maturities	$97	($7)	$-	$90
Common and preferred stock	8	-	-	8
Other	5	(8)	-	(3)
Total	$110	($15)	$-	$95

$ in Millions	Three Months Ended March 31,	
Components of Net Realized Investment Gains (Losses)	**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

Net realized investment gains for the three months ended March 31, 2011 were $76 million, a decrease of $19 million from the same period in 2010. The decrease primarily reflects sales undertaken during 2010 in connection with the shift in the Company's tactical allocation that did not recur in 2011, partially offset by gains recognized from the sale of common equities in 2011.

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:

$ in Millions	**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	(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 million as of December 31, 2010 to $565 million 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 million at December 31, 2010 to $281 million as of March 31, 2011, an increase of $18 million. Unrealized losses 12 months or longer decreased from $328 million as of December 31, 2010 to $284 million 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.

If the Company believes a decline in the value of a particular investment is temporary, the decline is recorded as an unrealized loss in policyholders' equity. If the decline is believed to be other-than-temporary, and the Company believes that it will not be able to collect all cash flows due on its fixed income securities, then the carrying value of the investment is written down to the expected cash flow amount and a realized loss is recorded as a credit impairment. A non-credit impairment loss is recognized in other comprehensive income, net of applicable taxes as the difference between expected cash flow and fair value. For the three months ended March 31, 2011, the Company recorded $18 million of fixed maturity impairment losses. The Company has concluded that the remaining gross unrealized losses of fixed maturity securities as of March 31, 2011 are temporary.

For equity securities, if the decline is believed to be other-than-temporary, the carrying value of the investment is written down to fair value and a realized loss is recorded. The gross unrealized losses recorded on equity securities at March 31, 2011 resulted primarily from decreases in quoted fair values from the dates that certain investment securities were acquired as opposed to fundamental changes in the

issuer’s financial performance and near-term financial prospects. As of March 31, 2011, the Company has concluded that the gross unrealized losses of equity securities as of March 31, 2011 are temporary.

LIQUIDITY AND CAPITAL RESOURCES

General

The liquidity requirements of the insurance subsidiaries are met primarily by funds generated from operations, asset maturities and income received on investments. Cash provided from these sources is used primarily for claims, claim adjustment expenses and operating expenses (underwriting and corporate benefit costs). There are certain cash outflows such as catastrophes and continued settlements of asbestos reserves that are unpredictable in nature and could create increased liquidity needs. The Company believes that the insurance subsidiaries' future business liquidity needs will be met from all the above sources.

Net cash flows are generally invested in marketable securities while keeping a certain amount in cash and short-term investments to meet unpredictable cash obligations. The Company monitors the duration of these investments, and purchases and sales are executed with the objective of having adequate cash available to satisfy its maturing liabilities. As the Company's investment strategy focuses on overall asset and liability durations, and not specific cash flows, asset sales may be required to satisfy obligations or rebalance asset portfolios. The Company's invested assets as of March 31, 2011 (including cash and cash equivalents) totaled $71.054 billion.

Short-term debt and current maturities of long-term debt outstanding as of March 31, 2011 and December 31, 2010 were as follows:

$ in Millions	**As of March 31, 2011**	**As of December 31, 2010**
Commercial paper	$-	$-
Revolving credit facilities	-	-
Current maturities of long-term debt	1	1
Total short-term debt and current maturities of long-term debt obligations	$1	$1

Long-term debt outstanding as of March 31, 2011 and December 31, 2010 was as follows:

$ in Millions	As of March 31, 2011	As of 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
Subtotal	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.

As part of its overall capital strategy, the Company previously announced that it may issue, repurchase or exchange debt depending on market conditions. Debt repurchases may be done through open market or other appropriate transactions. On March 21, 2011 the Company announced a tender offer for its 7.500% 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 million in connection with such tender offer, including approximately $5 million 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, approximately $24 million aggregate principal amount of the 2036 Notes remains outstanding.

Debt Transactions and In-force Credit Facilities

On May 12, 2010, LMAC entered into a $200 million 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, LMIC entered into a $750 million three-year committed repurchase agreement. In connection with the new repurchase agreement, LMIC terminated its existing $750 million 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 million 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 million unsecured revolving credit facility which terminates on December 14, 2012. In connection with the new facility, LMGI terminated its $250 million three-year unsecured revolving credit facility and its two revolving credit facilities totaling $750 million. 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 billion commercial paper program was reduced to $400 million and is backed by the three-year $400 million 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 million 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 million 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.

Interest Expense

Consolidated interest expense for the three months ended March 31, 2011 was $113 million, a decrease of $3 million from the same period in 2010. The decrease reflects the redemption of the 4.875% notes that matured in February 2010. As previously discussed, the Company continues to evaluate market conditions and may periodically effect transactions in its debt, subject to applicable limitations. Future debt repurchases may be done through open market or other appropriate transactions.

Holding Company Liquidity and Capital Resources

The Company conducts substantially all of its operations through its wholly owned insurance and service company subsidiaries, and therefore is primarily dependent on dividends, distributions, loans or other payments of funds from these entities to meet its current and future obligations. However, the subsidiaries are separate and distinct legal entities and have no obligation to make funds available to the Company, whether in the form of loans, dividends or other distributions. As of March 31, 2011, the Company, through its downstream subsidiary LMGI, had $4.792 billion of debt outstanding, excluding discount.

The insurance subsidiaries' ability to pay dividends on preferred or common stock is restricted under applicable insurance laws and regulations and may be paid only from unassigned surplus. Under the insurance laws of the domiciliary states of the insurance subsidiaries, an insurer may make an ordinary

dividend payment if its surplus as regards policyholders, following such dividend, is reasonable in relation to its outstanding liabilities, is adequate to meet its financial needs, and does not exceed the insurer's unassigned surplus. However, no insurer may pay an extraordinary dividend without the approval or non-disapproval of the domiciliary insurance regulatory authority. Under the insurance laws of Massachusetts, the domiciliary state of LMIC, an extraordinary dividend is defined as a dividend whose fair market value, together with other dividends made within the preceding 12 months, exceeds the greater of 10% of the insurer's surplus as regards policyholders as of the preceding December 31, or the insurer's net income for the 12-month period ending on the preceding December 31. Under the insurance laws of Wisconsin, the domiciliary state of Liberty Mutual Fire Insurance Company ("LMFIC") and Employers Insurance Company of Wausau ("EICOW"), an extraordinary dividend is defined as a dividend whose fair market value, together with other dividends paid within the preceding 12 months, exceeds the lesser of (a) 10% of the insurer's surplus as regards policyholders as of the preceding December 31, or (b) the greater of (1) the insurer's net income for the preceding calendar year, minus realized capital gains for that calendar year, or (2) the aggregate of the insurer's net income for the three preceding calendar years minus realized capital gains for those calendar years and minus dividends paid within the first two of the preceding three calendar years. Changes in the extraordinary dividend regulation of the domiciliary states of LMIC, LMFIC and EICOW could negatively affect LMGI's ability to pay principal and interest on its debt, as could a redomestication, merger or consolidation of LMIC, LMFIC or EICOW to a different domiciliary state.

The authorized control level risk-based capital (as of December 31, 2010) and 2011 available dividend capacity prior to needing regulatory approval for LMIC, LMFIC and EICOW were as follows:

$ in Millions	**RBC Ratio[1]**		**Dividend Capacity[2]**	**Dividends Paid[3]**
RBC Ratios and Dividend Capacity	**2010**	**2009**	**2011**	**2011**
LMIC	503%	479%	$2,921	$16
LMFIC	551%	451%	$120	$4
EICOW	671%	467%	$110	-

[1] Authorized control level risk-based capital as defined by the NAIC.
[2] Represents maximum allowable dividend without prior regulatory approval in the state of domicile.
[3] Dividends paid represent amounts paid during the three months ended March 31, 2011. Available dividend capacity as of March 31, 2011 is calculated as 2011 dividend capacity less dividends paid for the preceding 12 months. Dividends paid April 1, 2010 through March 31, 2011 for LMIC, LMFIC and EICOW were $65 million, $15 million and zero, respectively.

LMGI also has access to the following sources of funding:

- A management services agreement with LMIC pursuant to which LMGI is entitled to collect certain costs plus a management fee for services rendered by LMGI employees.
- Investment management agreements with affiliated entities pursuant to which LMGI is entitled to recover approximately $56 million in annual expenses for investment management services performed by LMGI employees.
- Liberty Corporate Services LLC ("LCS"), which through its subsidiaries collects fees and other revenues, primarily for claims administration and agency services rendered for affiliated and non-affiliated entities. For the three months ended March 31, 2011, LCS recorded $94 million in pre-tax income.
- Approximately $80 million of annual dividends related to non-redeemable perpetual preferred stock issuances by LMIC and LMFIC.

Statutory Surplus

Statutory surplus as regards policyholders for the combined operations of LMIC and its U.S. affiliates, including international branches, was $16.648 billion and $16.039 billion at March 31, 2011, and December 31, 2010, respectively. The increase in surplus primarily reflects unrealized gains of $550 million, and net income of $106 million (the sum of earnings from the Company's 58 domestic insurance companies and dividends from subsidiaries), partially offset by other changes in surplus of $47 million, primarily related to dividends to stockholders and non-admitted goodwill and goodwill amortization.

CRITICAL ACCOUNTING POLICIES

Critical Accounting Estimates

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 amounts included in the consolidated financial statements reflect their best estimates and appropriate assumptions, these amounts ultimately could be materially different from the amounts currently provided for in the consolidated financial statements.

Certain reclassifications have been made to the 2010 amounts to conform with the 2011 presentation.

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. See Note 1 in the Unaudited Consolidated Financial Statements as of and for the three months ended March 31, 2011 for further discussion of the Company's significant accounting policies.

Unpaid Claims and Claim Adjustment Expenses

Reserves for property-casualty unpaid claims and claim adjustment expenses were $48.485 billion and $48.059 billion as of March 31, 2011 and December 31, 2010, respectively. The increase was primarily due to large losses experienced by International due to the Japanese earthquake and tsunami, the New Zealand earthquake, the Australian floods and Cyclone Yasi.

Property-casualty insurance unpaid claims and claim adjustment expenses represent the Company's best estimate of amounts necessary to settle all outstanding claims, including claims that are incurred but not reported as of the reporting date. The Company's reserve projections are based primarily on detailed analysis of the facts in each case, experience with similar cases and various historical development patterns. Consideration is given to such historical patterns as field reserving trends and claims settlement practices, loss payments, pending levels of unpaid claims and product mix, as well as court decisions, economic conditions and public attitudes. All of these factors can affect the estimation of reserves.

Establishing loss reserves, including loss reserves for catastrophic events that have occurred, is an estimation process. Many factors can ultimately affect the final settlement of a claim and, therefore, the necessary reserve. Changes in the law, results of litigation, medical costs, the costs of repair materials, and labor rates can all affect ultimate claim costs. In addition, time can be a critical part of reserving determinations since the longer the span between the incidence of a loss and the payment or settlement of the claim, the more variable the ultimate settlement can be. Accordingly, "short-tail" claims, such as property damage claims, tend to be easier to estimate than "long-tail" claims, such as workers compensation or general liability claims.

As information develops that varies from past experience, provides additional data, or in some cases, augments data that previously was not considered sufficient for use in determining reserves, changes in the Company's estimate of ultimate liabilities may be required. The effects of these changes are reflected in current operating results.

Asbestos and Environmental

The Company's asbestos and environmental ("A&E") reserves for unpaid claims and claim adjustment expenses, net of reinsurance and including uncollectible reinsurance decreased $63 million from $1.190 billion as of December 31, 2010 to $1.127 billion as of March 31, 2011.

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 million, which included an increase of $70 million 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 annual study on the environmental claims liability, resulting in immaterial adjustments to held reserves.

All A&E claims against policies issued prior to 1986 by EICOW and its affiliates are 100% ceded to Nationwide Indemnity Company and guaranteed by Nationwide Mutual Insurance Company. In addition, the Company acquired PruPac in 2003 and any increase in A&E reserves is reinsured by Vantage Casualty Insurance Company and guaranteed by Prudential Financial, Inc.

The estimation of asbestos claims and associated liabilities and the analysis of environmental claims considered prevailing applicable law and certain inconsistencies of court decisions as to coverage, plaintiffs' expanded theories of liability, and the risks inherent in major litigation and other uncertainties; the Company believes that in future periods it is possible that the outcome of the continued uncertainties regarding asbestos and environmental related claims could result in liability that differs from current reserves by an amount that could be material to the Company's future operating results and financial condition.

Reinsurance Recoverables

The Company reported reinsurance recoverables of $13.609 billion and $14.310 billion at March 31, 2011 and December 31, 2010, respectively, net of allowance for doubtful accounts of $386 million and $393 million, respectively. The decrease is primarily due to the commutations of two excess of loss retroactive reinsurance agreements. Included in these balances are $945 million and $965 million of paid recoverables and $13.050 billion and $13.738 billion 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 and A+ from A.M. Best. 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 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 95% and 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 A.M. Best and Standard & Poor's, respectively, at March 31, 2011. Collateral held against outstanding gross reinsurance recoverable balances was $4.756 billion and $5.359 billion at March 31, 2011 and December 31, 2010, respectively.

The remaining 5% and 6% of the Company's net reinsurance recoverable balance is well diversified. No single reinsurer rated B++ or below by A.M. Best or BBB+ or below by Standard & Poor's accounts for more than 2% of GAAP equity. In addition, the average net reinsurance recoverable balance from individual reinsurers rated below A- or not rated by A.M. Best and Standard & Poor's was approximately $1 million 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 million) that are amortized into income using the effective interest method over the estimated settlement periods. At March 31, 2011, and December 31, 2010, deferred gains related to these reinsurance arrangements were $339 million and $550 million, 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 million and $29 million, respectively. Deferred gain amortization was $99 million and $17 million 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 billion and $1.947 billion at 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 million, 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, 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. The retroactive portion of the aggregate stop loss program is included in the amounts disclosed 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 million 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 million 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.

Impairment Losses on Investments

If the Company believes a decline in the value of a particular investment is temporary, the decline is recorded as an unrealized loss in policyholders' equity. If the decline is believed to be "other-than-temporary," and the Company believes that it will not be able to collect all cash flows due on its fixed income securities, then the carrying value of the investment is written down to the expected cash flow amount and a realized loss is recorded as a credit impairment. A non-credit impairment loss is recognized in other comprehensive income, net of applicable taxes as the difference between expected cash flow and 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 quarter end, 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 million and $94 million as of March 31, 2011 and December 31, 2010, respectively and the Company's maximum exposure to loss was $270 million and $123 million 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.

Deferred Acquisition Costs

Total deferred policy acquisition costs were $2.874 billion and $2.771 billion as of March 31, 2011 and December 31, 2010, respectively. Deferred policy acquisition costs are costs that vary with, and are primarily related to, the acquisition of new and renewal insurance and investment contracts that are deferred and amortized over the respective policy terms. Deferred acquisition costs are reviewed annually for recoverability. Investment income is considered in the recoverability assessment. For short-duration insurance contracts, acquisition costs include commissions, underwriting expenses, and premium taxes and assessments. For long-duration insurance contracts, these costs include first year commissions in excess of annual renewal commissions and variable sales, underwriting and administrative expenses.

Goodwill

Goodwill assets were $4.762 billion and $4.750 billion as of March 31, 2011 and December 31, 2010, respectively. Goodwill is tested for impairment at least annually (performed in the fourth quarter) using a two-step process. The first step is performed to identify potential impairment and, if necessary, the second step is performed for the purpose of measuring the amount of impairment, if any. Impairment is recognized only if the carrying amount is not recoverable from the discounted cash flows using a "market" rate and is measured as the difference between the carrying amount and the implied fair value. No impairments were recorded in 2011 or 2010. Other changes in the carrying amount of goodwill are primarily caused by foreign currency translation adjustments and adjustments to valuation allowances for acquired tax losses.

Deferred Income Taxes

The net deferred income tax asset was $759 million and $796 million as of March 31, 2011 and December 31, 2010, respectively, net of a valuation allowance of $159 million and $153 million, respectively. The net decrease in the Company's net deferred income tax asset is primarily due to the change in net unrealized capital gains and losses on certain investments. The overall increase in the valuation allowance is primarily due to net operating losses generated in certain foreign subsidiaries where there is uncertainty in the timing and amount of the realization of these losses. Management believes it is more likely than not that the Company's net deferred income tax asset will be realized based on the Company's ability and likelihood of generating future taxable income.

The income tax provision is calculated under the liability method. Deferred tax assets and liabilities are recorded based on the difference between the financial statement and tax bases of assets and liabilities at the enacted tax rates. The principal assets and liabilities giving rise to such differences are net unrealized capital gains and losses on certain investments, insurance loss reserves, unearned premiums, deferred policy acquisition costs, employee benefits, net operating losses and intangible assets.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (amounts in millions):

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

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

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

The Company does not expect any material changes to the unrecognized tax benefits within 12 months of the reporting date.

The IRS has completed its review of the Company's federal income tax returns through the 1998 tax year and is currently reviewing income tax returns for the 1999 through 2007 tax years. Any adjustments that may result from the IRS examinations of these income tax returns are not expected to have a material impact on the financial position, liquidity, or results of operations of the Company.

About the Company

Boston-based Liberty Mutual Holding Company Inc., the parent corporation of the Liberty Mutual Group of entities ("LMG" or the "Company"), is a diversified global insurer and third largest property and casualty insurer in the U.S. based on 2010 net written premium. The Company also ranks 82nd on the Fortune 100 list of largest corporations in the United States based on 2010 revenue. As of December 31, 2010, LMG had $112.350 billion in consolidated assets, $95.372 billion in consolidated liabilities, and $33.193 billion in annual consolidated revenue.

LMG, through its subsidiaries and affiliated companies, offers a wide range of property-casualty insurance products and services to individuals and businesses alike. In 2001 and 2002, the Company formed a mutual holding company structure, whereby the three principal mutual insurance companies, LMIC, LMFIC and EICOW, each became separate stock insurance companies under the ownership of Liberty Mutual Holding Company Inc.

Functionally, the Company conducts substantially all of its business through four strategic business units: LMAC, International, Personal Markets and Commercial Markets. Each business unit operates independently of the others and has dedicated sales, underwriting, claims, actuarial, financial and certain information technology resources. Management believes this structure allows each business unit to execute its business strategy and/or to make acquisitions without impacting or disrupting the operations of the Company's other business units.

LMG employs more than 45,000 people in more than 900 offices throughout the world. For a full description of the Company's business operations, products and distribution channels, please visit Liberty Mutual's Investor Relations web site at www.libertymutual.com/investors.