Liberty Mutual.

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

Quarter Ended June 30, 2009

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 and six months ended June 30, 2009 and 2008. This Management's Discussion & Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the Company's 2008 Annual Report, Second Quarter 2009 Unaudited Consolidated Financial Statements and Second Quarter 2009 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 on an after-tax GAAP 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.

In particular, the sufficiency of the Company's reserves for (i) asbestos, (ii) environmental ((i) and (ii) together "A&E"), and (iii) toxic tort (i.e., claims that arise primarily from exposure to chemical or other potentially hazardous products or substances, including welding rod, lead paint and silica related claims), as well as its results of operations, financial condition and liquidity, to the extent impacted by the sufficiency of the Company's A&E and toxic tort reserves, are subject to a number of potential adverse developments including adverse developments involving A&E and toxic tort claims and the related level and outcome of litigation, the willingness of parties, including the Company, to settle disputes, the interpretation of aggregate policy coverage limits, the Company's ability to recover reinsurance for A&E, toxic tort and other claims, the legal, economic, regulatory, and legislative environments, and their impact on the future development of A&E and toxic tort claims, and the impact of bankruptcies of various asbestos producers and related peripheral businesses.

Some of the other factors that could cause actual results to differ include, but are not limited to, the following: the Company's inability to obtain price increases or maintain market share due to competition or otherwise; the performance of the Company's investment portfolio, which could suffer reduced returns or losses adversely affecting the Company's profitability, capitalization and liquidity; market conditions that may limit the Company's ability to replace maturing liabilities in a timely manner or that may make it difficult to value the Company's investments; developments in U.S. and global financial and capital markets, including changes in interest rates, rates of inflation, credit spreads, equity prices and foreign exchange rates; losses due to defaults of individual issuers and defaults of the collateral backing certain investments; recessionary U.S. and global economic conditions, which could adversely affect the Company's ability to grow its business profitably; the potential effect of legislation and other governmental initiatives taken in response to stress in financial markets and economic conditions; insufficiency of, or changes in, loss reserves; the occurrence of catastrophic events, both natural and man-made, including terrorist acts, with a severity or frequency exceeding the Company's expectations; adverse changes in loss cost trends, including inflationary pressures in medical costs and automobile and home repair costs; developments relating to coverage and liability for mold claims; the effects of corporate bankruptcies; adverse developments in the cost, availability and/or ability to collect reinsurance, which may be adversely affected by current economic conditions; the Company's ability to successfully integrate operations, personnel and technology from its acquisitions, including the acquisition of Safeco Corporation ("Safeco") and its subsidiaries; the ability of the Company's subsidiaries to pay dividends to the Company; adverse results or other consequences from legal proceedings; the impact of regulatory investigations or reforms, including governmental actions regarding the compensation of brokers and agents and the purchase and sale of nontraditional products and related disclosures; unusual loss activity resulting from adverse weather conditions, including hurricanes, hail, tornados, snowfall and winter conditions; repatriation of foreign earnings; judicial expansion of policy coverage and the impact of new theories of liability; the impact of legislative actions, including proposed Federal legislation related to natural catastrophe funds and financial services regulation reform; larger than expected assessments for guaranty funds and mandatory pooling arrangements; a downgrade in the Company's claims-paying and financial strength ratings, which could adversely affect its business volumes, adversely affect its ability to access the debt markets and increase its borrowing costs; the loss or significant restriction on the Company's ability to use credit scoring in the pricing and underwriting of Personal Lines policies; and changes to the risk-based capital requirements. 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 web site 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 June 30, 2009 - Consolidated Results of Operations

- Revenues for the three months ended June 30, 2009 were $7.830 billion, an increase of $882 million or 12.7% over the same period in 2008.
- Net written premium for the three months ended June 30, 2009 was $6.904 billion, an increase of $625 million or 10.0% over the same period in 2008.
- Pre-tax operating income before private equity (loss) income for the three months ended June 30, 2009 was $427 million, an increase of $78 million or 22.3% over the same period in 2008.
- Pre-tax operating income for the three months ended June 30, 2009 was $407 million, consistent with the same period in 2008.
- Net income for the three months ended June 30, 2009 was $274 million, a decrease of $26 million or 8.7% from the same period in 2008.
- Cash flow from operations for the three months ended June 30, 2009 was $603 million, a decrease of $476 million or 44.1% from the same period in 2008.
- The combined ratio before catastrophes[1] and net incurred losses attributable to prior years[2] for the three months ended June 30, 2009 was 98.8%, an increase of 0.8 points over the same period in 2008. Including the impact of catastrophes and net incurred losses attributable to prior years, the Company's combined ratio for the three months ended June 30, 2009 decreased 1.7 points to 100.2%.

Six Months Ended June 30, 2009 - Consolidated Results of Operations

- Revenues for the six months ended June 30, 2009 were $15.236 billion, an increase of $1.403 billion or 10.1% over the same period in 2008.
- Net written premium for the six months ended June 30, 2009 was $13.932 billion, an increase of $1.397 billion or 11.1% over the same period in 2008.
- Pre-tax operating income before private equity (loss) income for the six months ended June 30, 2009 was $831 million, an increase of $50 million or 6.4% over the same period in 2008.
- Pre-tax operating income for the six months ended June 30, 2009 was $438 million, a decrease of $461 million or 51.3% from the same period in 2008.

[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 events of September 11, 2001, the 2004 U.S. Hurricanes, the 2005 U.S. Hurricanes and the September 2008 Hurricanes. 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.

- Net income for the six months ended June 30, 2009 was $302 million, a decrease of $358 million or 54.2% from the same period in 2008.

- Cash flow from operations for the six months ended June 30, 2009 was $988 million, a decrease of $704 million or 41.6% from the same period in 2008.

- The combined ratio before catastrophes and net incurred losses attributable to prior years for the six months ended June 30, 2009 was 98.0%, a decrease of 0.5 points from the same period in 2008. Including the impact of catastrophes and net incurred losses attributable to prior years, the Company's combined ratio for the six months ended June 30, 2009 decreased 1.5 points to 99.8%.

Financial Condition as of June 30, 2009

- Total assets were $108.520 billion as of June 30, 2009, an increase of $4.204 billion over December 31, 2008.

- Policyholders' equity was $11.845 billion as of June 30, 2009, an increase of $1.685 billion over December 31, 2008.

CONSOLIDATED RESULTS OF OPERATIONS

The Company has identified consolidated pre-tax operating income ("PTOI") and net written premium 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 is considered by the Company to be an appropriate indicator of underwriting and operating results and is consistent with the way the Company internally evaluates performance, except that limited partnership results recognized on the equity method are not included in internal PTOI. Net realized investment gains (losses) and private equity income (loss) are significantly impacted by both discretionary and economic factors and are not necessarily indicative of operating results. Federal and foreign 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.

Overview – Consolidated

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

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2009**	**2008**	**Change**	**2009**	**2008**	**Change**
Private passenger automobile	$2,454	$1,887	30.0%	$4,763	$3,568	33.5%
Workers compensation	882	1,183	(25.4)	2,086	2,616	(20.3)
Commercial multiple peril / Fire	608	477	27.5	1,201	948	26.7
Homeowners	549	557	(1.4)	982	1,008	(2.6)
International local businesses	418	404	3.5	897	833	7.7
Commercial automobile	398	351	13.4	784	681	15.1
General liability	296	277	6.9	606	619	(2.1)
LIU[1] reinsurance	208	206	1.0	590	533	10.7
Bond	177	94	88.3	337	182	85.2
LIU inland marine program	163	157	3.8	326	302	7.9
LIU third party	192	230	(16.5)	314	330	(4.8)
Group disability and life	151	140	7.9	298	277	7.6
LIU first party	87	70	24.3	148	133	11.3
Individual life	75	66	13.6	136	119	14.3
Assumed voluntary reinsurance	39	20	95.0	82	75	9.3
Other[2]	207	160	29.4	382	311	22.8
Total net written premium[3]	$6,904	$6,279	10.0%	$13,932	$12,535	11.1%

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

Consolidated net written premium by SBU was as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2009**	**2008**	**Change**	**2009**	**2008**	**Change**
Agency Markets	$2,798	$1,600	74.9%	$5,507	$3,177	73.3%
International	1,702	1,705	(0.2)	3,394	3,282	3.4
Personal Markets	1,620	1,539	5.3	3,043	2,884	5.5
Commercial Markets	1,082	1,410	(23.3)	2,504	3,139	(20.2)
Corporate and Other[1]	(298)	25	NM	(516)	53	NM
Total net written premium (NWP)	$6,904	$6,279	10.0%	$13,932	$12,535	11.1%
Foreign exchange effect on growth			(2.6)			(2.9)
NWP growth excluding foreign exchange			12.6%			14.0%

1 Includes internal and external reinsurance including 31.725% related to a homeowners quota share reinsurance treaty entered into in 2008.

NM = Not Meaningful

Major drivers of net written premium growth were as follows:

	Three Months Ended June 30,				Six Months Ended June 30,			
$ in Millions	**2009**	**2008**	**$ Change**	**Pts. Attribution**	**2009**	**2008**	**$ Change**	**Pts. Attribution**
LMG NWP	$6,904	$6,279	$625	10.0	$13,932	$12,535	$1,397	11.1
Components of Growth:								
Safeco	$1,356	$-	$1,356	21.5	$2,600	$-	$2,600	20.7
International local businesses (excluding foreign exchange)	1,202	1,071	131	2.0	2,376	2,077	299	2.4
Domestic homeowners[1]	607	557	50	0.7	1,099	1,008	91	0.7
Workers Compensation booked as billed adjustment	(5)	(10)	5	0.1	(50)	(89)	39	0.3
Group disability and life	151	140	11	0.2	298	277	21	0.1
Individual life	75	66	9	0.1	136	119	17	0.1
Domestic personal auto[1]	1,207	1,225	(18)	(0.2)	2,343	2,328	15	0.1
Bond[1]	76	94	(18)	(0.2)	154	182	(28)	(0.2)
Foreign exchange	(166)	-	(166)	(2.6)	(364)	-	(364)	(2.9)
Homeowners quota share	(281)	-	(281)	(4.4)	(504)	-	(504)	(4.0)
Other commercial lines[1]	2,682	3,136	(454)	(7.2)	5,844	6,633	(789)	(6.2)
Total LMG NWP	$6,904	$6,279	$625	10.0	$13,932	$12,535	$1,397	11.1

1 Excludes Safeco Premium

Net written premium for the three and six months ended June 30, 2009 was $6.904 billion and $13.932 billion, respectively, increases of $625 million and $1.397 billion over the same periods in 2008. Significant changes by major line of business include:

- Private passenger automobile net written premium increased $567 million and $1.195 billion in the quarter and year-to-date, respectively. The increases in the quarter and year-to-date primarily reflect approximately $598 million and $1.215 billion, respectively, of premium related to the Safeco acquisition made on September 22, 2008, and organic growth in International's local businesses in Latin America, and strong customer retention and new business growth in Personal Markets. The increases were partially offset by weaker foreign currencies versus the U.S. dollar (approximately $82 million and $156 million, respectively) and lower retention and new business writings in European operations primarily as a result of the region's general economic contraction.

- Workers compensation net written premium decreased $301 million and $530 million in the quarter and year-to-date, respectively. The decrease in the quarter and year-to-date primarily reflects lower retention and new business writings in Commercial Markets primarily as a result of the Middle Market change from direct distribution to third party. Additionally, Commercial and Agency Markets reflect a very competitive market as well as a reduction in premium in the National Markets' segment of Commercial Markets of $41 million and $48 million in the quarter and year-to-date, respectively, driven by a multi-year construction account written in 2008 that did not recur in 2009. Partially offsetting the decrease in the quarter and year-to-date was approximately $27 million and $56 million of premium, respectively, related to the Safeco acquisition. Both periods also include an adjustment to the Corporate and Other segment for the "booked as billed" method of accounting for net written premium.
- Commercial multiple peril / fire net written premium increased $131 million and $253 million in the quarter and year-to-date, respectively. The increases in both periods primarily reflect approximately $134 million and $259 million of premium, respectively, related to the Safeco acquisition, partially offset by lower retention levels and new business writings in Commercial Markets.
- Homeowners net written premium decreased $8 million and $26 million in the quarter and year-to-date, respectively. The decreases in the quarter and year-to-date reflect the impact of $281 million and $504 million, respectively, related to a homeowners quota share reinsurance treaty entered into in 2008. Partially offsetting the decreases were approximately $223 million and $387 million in the quarter and year-to-date, respectively, related to the Safeco acquisition as well as strong customer retention, new business growth and rate increases in Personal Markets.
- International local businesses net written premium (excluding private passenger automobile), increased $14 million and $64 million in the quarter and year-to-date, respectively. The increase in both periods primarily reflects organic growth, primarily in Latin America and to a lesser extent Asia. Partially offsetting the increase in the quarter and year-to-date was the impact of weaker foreign currencies versus the U.S. dollar (approximately $53 million and $114 million, respectively) and a decline in Europe due to the region's general economic contraction.
- Commercial automobile net written premium increased $47 million and $103 million in the quarter and year-to-date, respectively. The increases in the quarter and year-to-date primarily reflect premium related to the Safeco acquisition, approximately $100 million and $197 million, respectively, and rate increases in Commercial Markets. Partially offsetting the increases in both periods were lower retention and reduced new business in Commercial Markets and Agency Markets due to a more competitive environment and the Middle Market change from direct distribution to third party in Commercial Markets.
- LIU reinsurance net written premium increased $2 million and $57 million in the quarter and year-to-date, respectively. Impacting the increases in both periods was an improved rate environment.
- Bond net written premium increased $83 million and $155 million in the quarter and year-to-date, respectively. The increases in the quarter and year-to-date primarily reflect approximately $101 million and $183 million, respectively, related to the Safeco acquisition. Partially offsetting the increases were reduced exposures of existing policyholders due to economic conditions.
- LIU third party net written premium decreased $38 million and $16 million in the quarter and year-to-date, respectively. The decreases in both periods primarily reflect an increase in ceded written premium due to a change in the structure of the specialty casualty reinsurance program and a more competitive environment in the U.S. and Europe.
- Other net written premium increased $47 million and $71 million in the quarter and year-to-date, respectively. The increases in the quarter and year-to-date reflect an increase in allied lines net written premium of $26 million and $54 million, respectively, primarily related to the Safeco acquisition.

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 June 30,			Six Months Ended June 30,		
$ in Millions	**2009**	**2008**	**Change**	**2009**	**2008**	**Change**
Revenues	$7,830	$6,948	12.7%	$15,236	$13,833	10.1%
PTOI before catastrophes, net incurred losses attributable to prior years and private equity (loss) income	$522	$574	(9.1)	$1,069	$1,097	(2.6)
Catastrophes[1]:						
-September 2008 Hurricanes	(8)	-	NM	(14)	-	NM
-All other[2]	(245)	(313)	(21.7)	(565)	(479)	18.0
Net incurred losses attributable to prior years:						
- Asbestos & environmental[3]	(2)	(4)	(50.0)	(3)	(4)	(25.0)
- All other[4]	160	92	73.9	344	167	106.0
Pre-tax operating income before private equity (loss) income	427	349	22.3	831	781	6.4
Private equity (loss) income[5]	(20)	58	NM	(393)	118	NM
Pre-tax operating income	407	407	-	438	899	(51.3)
Realized (losses) gains, net	(27)	5	NM	(21)	(7)	200.0
Federal and foreign income tax expense	(106)	(112)	(5.4)	(115)	(232)	(50.4)
Net income	$274	$300	(8.7%)	$302	$660	(54.2%)
Cash flow from operations	$603	$1,079	(44.1%)	$988	$1,692	(41.6%)

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 events of September 11, 2001, the 2004 U.S. Hurricanes, the 2005 U.S. Hurricanes and the September 2008 Hurricanes. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

2 Catastrophe losses ceded under the homeowners quota share treaty are included to the extent that the ceded combined ratio exceeds 100.0%.

3 Net of allowance for uncollectible reinsurance reduction of zero for the three and six months ended June 30, 2009, and $3 million for the comparable periods of 2008.

4 Net of earned premium attributable to prior years of $1 million and $2 million for the three and six months ended June 30, 2009, and ($6) million and ($3) million for the comparable periods of 2008. Net of amortization of deferred gains on retroactive reinsurance of $17 million and $35 million for the three and six months ended June 30, 2009, and $19 million and $36 million for the comparable periods of 2008.

5 Private equity (loss) income is included in net investment income in the accompanying statements of income.

NM = Not Meaningful

PTOI for the three and six months ended June 30, 2009 was $407 million and $438 million, respectively, representing no change and a decrease of $461 million versus the same periods in 2008. The year-to-date decrease was driven by lower net investment income due to reduced valuations for investments in limited partnerships and limited liability companies and increased catastrophe losses in the first quarter of 2009. Partially offsetting the decrease was more favorable incurred losses attributable to prior years.

Revenues for the three and six months ended June 30, 2009 were $7.830 billion and $15.236 billion respectively, increases of $882 million and $1.403 billion over the same periods in 2008. The major components of revenues are net premium earned, net investment income, net realized investment gains (losses), and fee and other revenues.

Net premium earned for the three and six months ended June 30, 2009 was $6.959 billion and $13.841 billion, respectively, increases of $955 million and $1.899 billion over the same periods in 2008. The increases in both periods primarily reflect approximately $1.289 billion and $2.554 billion, respectively, of premium related to the acquisition of Safeco and organic growth in Latin America. Partially offsetting the increases in the quarter and year-to-date were $257 million and $504 million, respectively, of ceded premium related to the homeowners quota share treaty and approximately $129 million and $268 million reflecting the impact of weaker foreign currencies versus the U.S. dollar.

Net investment income for the three and six months ended June 30, 2009 was $697 million and $1.034 billion, respectively, representing decreases of $57 million and $477 million from the same periods in 2008. The decreases in both periods reflect reduced valuations for investments in limited partnerships and limited liability companies and lower yields due to increased cash and short-term investment holdings. Partially offsetting these decreases were increases in interest income, primarily due to a higher invested asset base resulting from the Safeco acquisition in the third quarter of 2008, debt proceeds, and the continued re-investment of cash flows from operations.

Net realized investment losses for the three and six months ended June 30, 2009 were $27 million and $21 million, respectively, compared to a gain of $5 million and a loss of $7 million in the same periods in 2008. The six months ended June 30, 2009 reflects higher impairment losses than the same period in 2008 on fixed maturity investments deemed to be other-than-temporarily impaired. Partially offsetting these impairment losses were gains recognized primarily in the first quarter of 2009 from sales related to the Company's decision to reduce its exposure to the equity markets, and other net gains. In addition, the Company recorded net derivative gains of $25 million and $33 million, respectively, for the six months ended June 30, 2009 and June 30, 2008 associated with derivative contracts the Company used to partially hedge its equity exposure. The final contract terminated in January 2009.

Fee and other revenues for the three and six months ended June 30, 2009 were $201 million and $382 million, respectively, an increase of $16 million and a decrease of $5 million versus the same periods in 2008. The increase in the quarter reflects gains of $11 million on early extinguishment of long-term debt pursuant to repurchases more fully described below and higher installment fees in Agency Markets due to the acquisition of Safeco, partially offset by a decrease in oil and gas revenues. The year-to-date decrease reflects lower oil and gas revenues, partially offset by higher fee revenues from the Company's servicing carrier operations and the previously mentioned gains on early extinguishment of long-term debt. 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 and six months ended June 30, 2009 were $7.450 billion and $14.819 billion, respectively, increases of $914 million and $1.878 billion over the same periods in 2008. The increase in both periods primarily reflects the acquisition of Safeco, organic business growth, in particular International's Latin American and LIU operations, deteriorating loss trends in Commercial Markets resulting in higher current accident year losses being recognized, and higher interest expense as a result of the Company's May 2008 debt offering. Partially offsetting these increases were favorable incurred losses attributable to prior years primarily related to Agency Markets liability lines, ceded losses and expenses associated with the homeowners quota share reinsurance treaty, and the impact of weaker foreign currencies versus the U.S. dollar.

	Three Months Ended June 30,			Six Months Ended June 30,		
			Change			Change
CONSOLIDATED	**2009**	**2008**	**(Points)**	**2009**	**2008**	**(Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	69.9%	70.0%	(0.1)	69.6%	70.5%	(0.9)
Underwriting expense ratio	28.7	27.7	1.0	28.2	27.7	0.5
Dividend ratio	0.2	0.3	(0.1)	0.2	0.3	(0.1)
Subtotal	98.8	98.0	0.8	98.0	98.5	(0.5)
Catastrophes[1]:						
-September 2008 Hurricanes	0.1	-	0.1	0.1	-	0.1
-All other	3.7	5.4	(1.7)	4.2	4.2	-
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	0.1	(0.1)	-	0.1	(0.1)
- All other	(2.4)	(1.6)	(0.8)	(2.5)	(1.5)	(1.0)
Total combined ratio[2]	100.2%	101.9%	(1.7)	99.8%	101.3%	(1.5)

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 events of September 11, 2001, the 2004 U.S. Hurricanes, the 2005 U.S. Hurricanes and the September 2008 Hurricanes. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

2 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 and six months ended June 30, 2009 was 98.8% and 98.0% respectively, an increase of 0.8 points and a decrease of 0.5 points versus the same periods in 2008. The decreases in the claims and claim adjustment expense ratio in the quarter reflects the impact of Agency Markets favorable Regional Companies Group results across property and liability lines. Both periods reflect a greater weighting of personal lines results due to lower loss ratios from the acquired Safeco personal lines business and favorable loss trends in the automobile physical damage line of business and increased claim efficiency in Personal Markets. The decreases were partially offset by an increase in loss activity for LIU’s reinsurance business as a result of large loss events, deteriorating loss trends in Commercial Markets resulting in higher current accident year losses being recognized, and higher loss ratios in Summit due to a decrease in rates. The increase in the underwriting expense ratio in both periods primarily reflects a greater mix of the independent agent distribution channel (Agency Markets) and higher benefit costs.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three and six months ended June 30, 2009 was 100.2% and 99.8% respectively, decreases of 1.7 points and 1.5 points from the same periods in 2008. The decreases in both periods reflect the changes in the combined ratio components previously discussed and the impact of the favorable incurred loss development attributable to prior years primarily related to Agency Markets liability lines.

Federal and foreign income tax expense for the three and six months ended June 30, 2009 was $106 million and $115 million, respectively, decreases of $6 million and $117 million from the same periods in 2008.

The Company's effective tax rate for the three and six months ended June 30, 2009 was 28%, compared to 27% and 26% for the same periods in 2008. The Company's effective tax rate differs from the Federal statutory rate of 35% principally due to tax-preferenced investment income, goodwill, foreign taxes and prior years' taxes.

Net income for the three and six months ended June 30, 2009 was $274 million and $302 million, respectively, decreases of $26 million and $358 million from the same periods in 2008.

Cash flow from operations for the three and six months ended June 30, 2009 was $603 million and $988 million, respectively, decreases of $476 million and $704 million from the same periods in 2008. The decreases in both periods primarily reflect ceded premium associated with the homeowners quota share treaty, lower domestic commercial lines written premium (ex-Safeco), lower investment income collections and an increase in catastrophe loss payments. The quarter also includes a $150 million pension contribution. Partially offsetting these decreases are lower non-catastrophe paid losses and reduced general expenses.

AGENCY MARKETS

Overview – Agency Markets

Agency Markets delivers personal and commercial insurance products and services to individuals and businesses through independent agents throughout the United States. Commercial lines products are offered through eight regional insurance companies that combine their local underwriting, market knowledge and service orientation with the cost efficiencies of a national company. Personal lines products are distributed nationally using the Safeco brand, with a focus on product and pricing sophistication. Liberty Mutual Surety is a leading provider of nationwide contract and commercial surety bonds. Summit provides workers compensation in the Southeast (primarily Florida).

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

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2009[1]**	**2008[1]**	**Change**	**2009[1]**	**2008[1]**	**Change**
Regional Companies Group	$1,185	$927	27.8%	$2,328	$1,821	27.8%
Personal Lines (Safeco)	1,260	369	NM	2,446	677	NM
Summit	136	175	(22.3%)	317	428	(25.9%)
Liberty Mutual Surety	176	94	87.2%	336	183	83.6%
Other[2]	41	35	17.1%	80	68	17.6%
Total net written premium	$2,798	$1,600	74.9%	$5,507	$3,177	73.3%

1 Effective in the first quarter 2009, net written premium of both legacy Safeco and Regional Companies Group have been reclassified as follows: a) commercial lines operations are reflected in the Regional Companies Group segment; this segment also includes excess casualty operations previously reflected in Other, b) personal lines results are reflected in the Personal Lines (Safeco) segment and c) surety and fidelity operations are reflected in the Liberty Mutual Surety segment. The prior periods have been restated to reflect these changes.

2 Includes run-off operations and internal reinsurance.

NM= Not Meaningful

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

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2009**	**2008**	**Change**	**2009**	**2008**	**Change**
Commercial Lines						
Workers compensation total:	$363	$407	(10.8%)	$772	$884	(12.7%)
- Summit	136	175	(22.3%)	317	428	(25.9%)
- All other	227	232	(2.2%)	455	456	(0.2%)
Commercial multiple peril	481	354	35.9%	948	701	35.2%
Commercial automobile	299	212	41.0%	577	417	38.4%
General liability	134	99	35.4%	261	190	37.4%
Bond	177	95	86.3%	337	183	84.2%
Other	76	57	33.3%	142	112	26.8%
Subtotal	$1,530	$1,224	25.0%	$3,037	$2,487	22.1%
Personal Lines						
Private passenger automobile	$784	$224	NM	$1,590	$421	NM
Homeowners	375	129	190.7%	671	226	196.9%
Other	109	23	NM	209	43	NM
Subtotal	$1,268	$376	NM	$2,470	$690	NM
Total net written premium	$2,798	$1,600	74.9%	$5,507	$3,177	73.3%

NM = Not Meaningful

Net written premium for the three and six months ended June 30, 2009 was $2.798 billion and $5.507 billion, respectively, increases of $1.198 billion and $2.330 billion over the same periods in 2008. The increases reflect the impact of the Safeco acquisition, which contributed approximately $1.356 billion and $2.600 billion in the quarter and year-to-date, respectively. These increases represent additional net written premium of approximately $913 million and $1.760 billion for personal lines in the quarter and year-to-date, respectively, and approximately $443 million and $840 million for commercial lines in the quarter and year-to-date, respectively. The increases in both periods were partially offset by modest rate decreases and lower retention due to a more competitive environment, a reduction in exposure due to the contraction of the economy, and state mandated rate decreases of 18.9% in Florida workers compensation.

Results of Operations – Agency Markets

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2009**	**2008**	**Change**	**2009**	**2008**	**Change**
Revenues	$3,022	$1,670	81.0%	$6,056	$3,317	82.6%
PTOI before catastrophes and net incurred losses attributable to prior years	285	127	124.4%	614	235	161.3%
Catastrophes[1]:						
-September 2008 Hurricanes	(2)	-	NM	(16)	-	NM
-All other	(125)	(75)	66.7%	(317)	(155)	104.5%
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	-	-	-	-	-
- All other[2]	137	47	191.5%	288	113	154.9%
Pre-tax operating income	$295	$99	198.0%	$569	$193	194.8%

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.

2 Net of earned premium attributable to prior years of $1 million and ($2) million for the three and six months ended June 30, 2009, respectively, and ($1) million and ($5) million for the comparable periods of 2008.

NM = Not Meaningful

PTOI for the three and six months ended June 30, 2009 was $295 million and $569 million, respectively, increases of $196 million and $376 million over the same periods in 2008. The increases in PTOI are primarily attributable to operating earnings associated with the Safeco acquisition and favorable incurred losses attributable to prior years, partially offset by unfavorable catastrophe activity.

Revenues for the three and six months ended June 30, 2009 were $3.022 billion and $6.056 billion, respectively, increases of $1.352 billion and $2.739 billion over the same periods in 2008. The major components of revenues are net premium earned, net investment income, and fee and other income.

Net premiums earned for the three and six months ended June 30, 2009 were $2.773 billion and $5.559 billion, respectively, increases of $1.258 billion and $2.551 billion over the same periods in 2008. The quarter and year-to-date increases reflect approximately $1.335 billion and $2.600 billion of premium, respectively, related to the Safeco acquisition, partially offset by the earned premium associated with the other changes in net written premium previously discussed.

Net investment income for the three and six months ended June 30, 2009 was $219 million and $437 million, respectively, increases of $80 million and $159 million over the same periods in 2008. The increases in both periods reflect an increase in invested assets associated with the Safeco acquisition and the continued investment of cash flow from operations.

Fee and other revenues for the three and six months ended June 30, 2009 were $30 million and $60 million, increases of $14 million and $29 million over the same periods in 2008. The increases reflect increased installment fees due to the Safeco acquisition

Claims, benefits and expenses for the three and six months ended June 30, 2009 were $2.727 billion and $5.487 billion, respectively, increases of $1.156 billion and $2.363 billion over the same periods in 2008. The quarter and year-to-date increases primarily reflect the impact of the Safeco acquisition and higher catastrophe losses, related to winter and Midwest storms, partially offset by favorable incurred losses attributable to prior years primarily in liability lines due to moderate frequency and severity trends across most commercial and personal lines, in particular commercial multi-peril, general liability, and personal auto.

	Three Months Ended June 30,			Six Months Ended June 30,		
			Change			Change
AGENCY MARKETS	**2009**	**2008**	**(Points)**	**2009**	**2008**	**(Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	65.3%	66.5%	(1.2)	64.9%	67.6%	(2.7)
Underwriting expense ratio[1]	30.8	33.0	(2.2)	30.4	32.6	(2.2)
Dividend ratio	0.4	0.7	(0.3)	0.4	0.7	(0.3)
Subtotal	96.5	100.2	(3.7)	95.7	100.9	(5.2)
Catastrophes:[2]						
-September 2008 Hurricanes	0.1	-	0.1	0.2	-	0.2
-All other	4.4	5.0	(0.6)	5.7	5.1	0.6
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	-	-	-	-	-
- All other	(4.9)	(3.1)	(1.8)	(5.1)	(3.7)	(1.4)
Total combined ratio	96.1%	102.1%	(6.0)	96.5%	102.3%	(5.8)

1 One-time Safeco integration costs have been excluded from the combined ratio.

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

The Agency Markets combined ratio before catastrophes and net incurred losses attributable to prior years for the three and six months ended June 30, 2009 was 96.5% and 95.7%, respectively, decreases of 3.7 and 5.2 points from the same periods in 2008. The decrease in the claims and claim adjustment expense ratio for the quarter is driven by the increased amount of personal lines written due to the Safeco acquisition and favorable auto liability results. The decrease in the claims and claim adjustment expense ratio for the year-to-date reflects the change in business mix and favorable personal and commercial lines results across property and liability lines, partially offset by higher loss ratios in Summit due to the decrease in rates. The decrease in the underwriting expense ratio reflects the impact of writing more personal lines business, which typically has a lower expense ratio, and increased efficiencies due to the Safeco acquisition.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three and six months ended June 30, 2009 was 96.1% and 96.5%, respectively, decreases of 6.0 and 5.8 points from the same periods in 2008. The decreases in both periods primarily reflect the changes in the combined ratio previously discussed as well as favorable net incurred losses attributable to prior years related to personal and commercial liability lines and property (reclassified to the current accident year), partially offsetting the year-to-date were higher catastrophe losses due to winter and Midwest storm activity.

INTERNATIONAL

Overview – International

International provides 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 lines worldwide. International's local business operations consist of local insurance operations selling traditional property, casualty, health and life insurance products (primarily auto) to individuals and businesses in countries with a large and growing middle class. In Latin America, International operates in Venezuela, Argentina, Colombia, Brazil and Chile. In Asia, International writes business in Singapore, Thailand, Vietnam and China (including Hong Kong). In Europe, International operates in Spain, Portugal, Turkey and Poland. LIU writes casualty, specialty casualty, marine, energy, construction, aviation and property coverages 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, including property catastrophe reinsurance, on a worldwide basis.

International net written premium by market segment was as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2009**	**2008**	**Change**	**2009**	**2008**	**Change**
International Local Businesses Total	$1,065	$1,065	-	$2,084	$2,053	1.5%
- Latin America	677	615	10.1%	1,356	1,202	12.8
- Europe	332	397	(16.4)	610	741	(17.7)
- Asia	56	53	5.7	118	110	7.3
Liberty International Underwriters	637	640	(0.5)	1,310	1,229	6.6
Total net written premium (NWP)	$1,702	$1,705	(0.2%)	$3,394	$3,282	3.4%
Foreign exchange effect on growth			(9.6%)			(11.0%)
NWP growth excluding foreign exchange			9.4%			14.4%

International's major product lines are as follows:

(1) Local businesses: personal, primarily private passenger automobile, and commercial insurance;
(2) LIU reinsurance: includes multi-line insurance and reinsurance with an emphasis on property, treaty casualty, personal accident, aviation and reinsurance through Lloyd's Syndicate 4472;
(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 June 30,			Six Months Ended June 30,		
$ in Millions	**2009**	**2008**	**Change**	**2009**	**2008**	**Change**
Local businesses – private passenger auto	$649	$662	(2.0%)	$1,205	$1,240	(2.8%)
Local businesses – all other[1]	416	403	3.2	879	813	8.1
LIU reinsurance	207	201	3.0	542	486	11.5
LIU inland marine program	163	157	3.8	326	302	7.9
LIU third party	187	216	(13.4)	297	306	(2.9)
LIU first party	67	51	31.4	123	109	12.8
LIU other	13	15	(13.3)	22	26	(15.4)
Total net written premium	$1,702	$1,705	(0.2%)	$3,394	$3,282	3.4%

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

Net written premium for the three and six months ended June 30, 2009 was $1.702 billion and $3.394 billion, respectively, a decrease of $3 million and an increase of $112 million versus the same periods in 2008. The slight decrease in the quarter reflects a decline in Europe as a result of the region's general economic contraction, largely offset by organic growth in Latin America, and to a lesser extent, Asia. The decrease in the quarter was also impacted by the weakening of foreign currencies versus the U.S. dollar (approximately $164 million). The increase year-to-date reflects organic growth in both local businesses and LIU. Organic growth within the local businesses occurred primarily in Latin America, and to a lesser extent, Asia, partially offset by a decline in Europe. While nearly all lines of business contributed to LIU's growth, the major driver was the improved rating environment in LIU's reinsurance business. Additionally, continued expansion of LIU's inland marine program, as well as the timing of a reinsurance renewal within LIU's first party business, also contributed to LIU's growth. The increase year-to-date was partially offset by the weakening of foreign currencies versus the U.S. dollar (approximately $362 million), and an increase in ceded written premium due to a change in the structure of the specialty casualty reinsurance program and a more competitive environment in the U.S. and Europe in LIU's third party business.

Results of Operations – International

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2009**	**2008**	**Change**	**2009**	**2008**	**Change**
Revenues	$1,866	$1,767	5.6%	$3,594	$3,498	2.7%
PTOI before catastrophes and net incurred losses attributable to prior years	$99	$137	(27.7%)	$227	$262	(13.4%)
Catastrophes:[1]						
-September 2008 Hurricanes	(3)	-	NM	(6)	-	NM
-All other	1	-	NM	-	-	-
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	-	-	-	-	-
- All other[2]	32	33	(3.0)	30	39	(23.1)
Pre-tax operating income	$129	$170	(24.1%)	$251	$301	(16.6%)

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 events of September 11, 2001, the 2004 U.S. Hurricanes, the 2005 U.S. Hurricanes and the September 2008 Hurricanes. 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 ($1) million for the three and six months ended June 30, 2009, respectively, and $1 million and zero for the comparable periods of 2008.

NM = Not Meaningful

PTOI for the three and six months ended June 30, 2009 was $129 million and $251 million, respectively, decreases of $41 million and $50 million from the comparable periods in 2008. The decrease in both periods primarily reflects the impact of losses in the local and LIU businesses and the impact of a stronger U.S. dollar versus the prior year.

Revenues for the three and six months ended June 30, 2009 were $1.866 billion and $3.594 billion, respectively, increases of $99 million and $96 million over the same periods in 2008. The major components of revenues are net premium earned and net investment income.

Net premium earned for the three and six months ended June 30, 2009 was $1.676 billion and $3.212 billion, respectively, increases of $70 million and $67 million over the same periods in 2008. The impact of weakening foreign currencies versus the U.S. dollar (approximately $129 million and $268 million in the quarter and year-to-date, respectively) was offset by increases in both periods associated with the previously mentioned growth in net written premium in 2009 and the latter half of 2008.

Net investment income for the three and six months ended June 30, 2009 was $147 million and $295 million, respectively, unchanged and a decrease of $4 million versus the same periods in 2008. The decrease year-to-date reflects both a decline in the yield and the impact of weaker foreign currencies versus the U.S. dollar, partially offset by an increase associated with a higher invested asset base.

Claims, benefits and expenses for the three and six months ended June 30, 2009 were $1.730 billion and $3.328 billion, respectively, increases of $119 million and $114 million over the same periods in 2008. The increases in both periods correspond to growth in the local businesses, primarily in Latin America, and LIU, which were partially offset by weaker foreign currencies versus the U.S. dollar.

INTERNATIONAL	Three Months Ended June 30, 2009	2008	Change (Points)	Six Months Ended June 30, 2009	2008	Change (Points)
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	71.4%	68.6%	2.8	70.3%	68.9%	1.4
Underwriting expense ratio	30.0	32.3	(2.3)	30.5	31.7	(1.2)
Dividend ratio	-	-	-	-	-	-
Subtotal	101.4	100.9	0.5	100.8	100.6	0.2
Catastrophes:[1]						
-September 2008 Hurricanes	0.2	-	0.2	0.2	-	0.2
-All other	-	-	-	-	-	-
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	-	-	-	-	-
- All other	(2.0)	(2.1)	0.1	(0.9)	(1.2)	0.3
Total combined ratio	99.6%	98.8	0.8	100.1%	99.4%	0.7

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 events of September 11, 2001, the 2004 U.S. Hurricanes, the 2005 U.S. Hurricanes and the September 2008 Hurricanes. 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 and six months ended June 30, 2009 was 101.4% and 100.8%, respectively, increases of 0.5 points and 0.2 points over the same periods in 2008. The increase in the claims and claim adjustment expense ratio in both periods is primarily due to an increase in loss activity within LIU's reinsurance business resulting from several large loss events. This increase is partially offset in both periods by a decrease in the underwriting expense ratio driven by lower commission expense ratio primarily due to a change in the structure of a reinsurance program in LIU's inland marine business, as well as a decrease in the underwriting expense ratio within the local businesses, primarily in Latin America and Europe, as a result of effective cost management.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three and six months ended June 30, 2009 was 99.6% and 100.1%, respectively, increases of 0.8 points and 0.7 points over the same periods in 2008. The increases in both periods reflect the impact of catastrophe loss development related to the September 2008 Hurricane in LIU's first party business, as well as less favorable incurred loss development attributable to prior years in 2009 as compared to the same periods in 2008.

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 approximately 1,800 licensed captive sales representatives, approximately 500 licensed telesales counselors, third-party producers and the Internet. Personal Markets' largest source of new business is through its more than 11,850 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 June 30,			Six Months Ended June 30,		
$ in Millions	**2009**	**2008**	**Change**	**2009**	**2008**	**Change**
Private passenger automobile	$1,021	$995	2.6%	$1,963	$1,901	3.3%
Homeowners and other	524	478	9.6	944	864	9.3
Individual life	75	66	13.6	136	119	14.3
Total net written premium	$1,620	$1,539	5.3%	$3,043	$2,884	5.5%

Net written premium for the three and six months ended June 30, 2009 was $1.620 billion and $3.043 billion, respectively, increases of $81 million and $159 million over the same periods in 2008. The increases in both periods reflect new business growth, strong customer retention in both automobile and homeowners, rate increases on homeowners policies, and increases in structured settlement premium for individual life.

Private passenger automobile net written premium for the three and six months ended June 30, 2009 was $1.021 billion and $1.963 billion, respectively, increases of $26 million and $62 million over the same periods in 2008. The increases in both periods reflect a 4.3% increase in voluntary policies in-force as compared to June 30, 2008 due to strong customer retention and new business growth. The introduction of managed competition in 2008 provided the Company with the opportunity to significantly increase its presence in the Massachusetts automobile insurance market. Average premium is consistent with the prior year.

Homeowners and other net written premium for the three and six months ended June 30, 2009 was $524 million and $944 million, respectively, increases of $46 million and $80 million over the same periods in 2008. The increases in both periods reflect rate increases and a 5.2% increase in policies in-force (1.3 points related to renters policies) as compared to June 30, 2008 due to strong customer retention and new business growth, primarily in non-coastal areas. In addition, approximately one point of the policies in-force growth is attributable to the relationship established with GEICO in late 2007, which allows GEICO to offer the Company's homeowners products to its auto prospects and customers through the Internet and call centers.

Individual life net written premium for the three and six months ended June 30, 2008 was $75 million and $136 million, respectively, increases of $9 million and $17 million over the same periods in 2008. The increases in both periods reflect higher structured settlement sales.

Results of Operations – Personal Markets

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2009**	**2008**	**Change**	**2009**	**2008**	**Change**
Revenues	$1,731	$1,652	4.8%	$3,402	$3,286	3.5%
PTOI before catastrophes, net incurred losses attributable to prior years and private equity (loss) income	$255	$231	10.4	$477	$435	9.7
Catastrophes:[1]						
-September 2008 Hurricanes	-	-	-	21	-	NM
-All other	(93)	(191)	(51.3)	(216)	(255)	(15.3)
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	-	-	-	-	-
- All other	(4)	11	NM	14	13	7.7
Pre-tax operating income before private equity income	$158	$51	NM	$296	$193	53.4%
Private equity income[2]	(2)	-	NM	5	-	NM
Pre-tax operating income	$156	$51	NM	$301	$193	56.0%

1 Catastrophes include all current and prior year catastrophe losses including assessments from TWIA. Catastrophe losses, where applicable, include the impact of accelerated earned premiums and earned reinstatement premiums.
2 Private equity income is included in net investment income in the accompanying statements of income.
NM = Not Meaningful

PTOI for the three and six months ended June 30, 2009 was $156 million and $301 million, respectively, increases of $105 million and $108 million over the same periods in 2008. Both periods reflect increased revenue due to higher net premiums, decreased catastrophe losses, and favorable loss trends in the automobile physical damage line of business.

Revenues for the three and six months ended June 30, 2009 were $1.731 billion and $3.402 billion, respectively, increases of $79 million and $116 million over the same periods in 2008. The major components of revenues are net premium earned and net investment income.

Net premium earned for the three and six months ended June 30, 2009 was $1.519 billion and $2.997 billion, respectively, increases of $71 million and $119 million over the same periods in 2008. The increases in both periods reflect the earned premium associated with the changes in net written premium for both the voluntary automobile and homeowners lines of business in the second half of 2008 and the first half of 2009, and an increase in sales of structured settlement products in individual life.

Net investment income for the three and six months ended June 30, 2009 was $169 million and $352 million, respectively, a decrease of $7 million and an increase of $2 million versus the same periods in 2008. Both periods reflect a higher invested asset base due to the continued investment of cash flow from operations. This is more than offset by lower investment yields experienced by individual life in the three months ended and partially offset in the six months ended June 30, 2009.

Claims, benefits and expenses for the three and six months ended June 30, 2009 were $1.566 billion and $3.112 billion, respectively, a decrease of $42 million and an increase of $10 million versus the same periods in 2008. The decrease in the quarter was primarily due to a decrease in catastrophe losses which resulted from a subrogation recovery related to the 2007 California wildfires and fewer catastrophes in 2009. The six months ended June 30, 2009 also includes favorable development on the September 2008 Hurricanes. Both periods reflect lower profit share expense related to business acquired from Prudential Financial, Inc. (such business, "PruPac"), partially offset by increases from business growth and general cost increases. In addition, both periods in 2008 include favorable prior year loss development on auto liability business that did not occur in 2009.

	Three Months Ended June 30,			Six Months Ended June 30,		
PERSONAL MARKETS	**2009**	**2008**	**Change (Points)**	**2009**	**2008**	**Change (Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	61.9%	62.5%	(0.6)	63.6%	64.0%	(0.4)
Underwriting expense ratio	26.0	26.8	(0.8)	25.3	26.2	(0.9)
Dividend ratio	-	-	-	-	-	-
Subtotal	87.9	89.3	(1.4)	88.9	90.2	(1.3)
Catastrophes[1]:						
-September 2008 Hurricanes	-	-	-	(0.7)	-	(0.7)
-All other	6.5	13.8	(7.3)	7.6	9.3	(1.7)
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	-	-	-	-	-
- All other	0.3	(0.8)	1.1	(0.6)	(0.5)	(0.1)
Total combined ratio	94.7%	102.3%	(7.6)	95.2%	99.0%	(3.8)

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

The Personal Markets combined ratio before catastrophes and net incurred losses attributable to prior years for the three and six months ended June 30, 2009 was 87.9% and 88.9%, respectively, decreases of 1.4 points and 1.3 points from the same periods in 2008. The decrease in the claims and claim adjustment expense ratio in both periods is mainly related to favorable loss trends in the automobile physical damage line of business and increased claim adjustment efficiency. The decrease in the underwriting expense ratio in the quarter resulted from reduced overhead absorption due to the impact of the Safeco transaction. The year-to-date underwriting expense ratio also benefited from lower profit share expense related to PruPac.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three and six months ended June 30, 2009 was 94.7% and 95.2%, respectively, decreases of 7.6 points and 3.8 points from the same periods in 2008. The decreases in both periods reflect the changes in the combined ratio previously discussed and lower catastrophe losses. The three months ended June 30, 2009 also includes favorable prior year loss development on auto liability business in 2008 that did not occur in 2009.

COMMERCIAL MARKETS

Overview – Commercial Markets

Commercial Markets offers a wide array of commercial insurance and reinsurance coverages to U.S. employers and insurance companies, respectively. Products are distributed primarily by agents and brokers, national market account executives, employee benefits brokers, and consultants. The Commercial Markets business unit is organized into separate marketing and underwriting groups, each of which focuses on a particular customer base, product grouping or distribution channel to provide tailored products and services that specifically address customers' needs. The Commercial Markets coverages include workers compensation, commercial automobile, general liability (including product liability), group disability and life, commercial multiple peril and fire, assumed voluntary reinsurance, and a variety of other coverages. The Company is also a servicing carrier for state based workers compensation involuntary market pools.

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

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

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2009**	**2008**	**Change**	**2009**	**2008**	**Change**
Middle Market[1,2]	$353	$528	(33.1%)	$934	$1,293	(27.8%)
National Market[2]	286	432	(33.8)	665	917	(27.5)
Group Market	151	140	7.9	298	277	7.6
Specialty Lines[3]	93	69	34.8	208	195	6.7
Liberty Mutual Property	114	119	(4.2)	194	208	(6.7)
Other Markets	85	122	(30.3)	205	249	(17.7)
Total net written premium	$1,082	$1,410	(23.3%)	$2,504	$3,139	(20.2%)

1 Effective in the fourth quarter 2008, net written premium associated with Business Markets and Wausau Insurance, previously reported separately, is now included in Middle Market. The prior periods have been restated to reflect this change.

2 Effective November 1, 2008, certain accounts with available premium and premium equivalents greater than $1.5 million, previously reported as part of Middle Market, have been transferred upon renewal to National Market. The prior periods have been restated to reflect this change.

3 Effective in the fourth quarter 2008, net written premium associated with Commercial Affinity, previously reported as part of Wausau Insurance, is now included in Specialty Lines. 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 June 30,			Six Months Ended June 30,		
$ in Millions	**2009**	**2008**	**Change**	**2009**	**2008**	**Change**
Workers compensation	$516	$786	(34.4%)	$1,348	$1,808	(25.4%)
General liability	115	138	(16.7)	254	374	(32.1)
Group disability and life	151	140	7.9	298	277	7.6
Commercial automobile	99	136	(27.2)	205	260	(21.2)
Commercial multiple peril / Fire	103	115	(10.4)	210	234	(10.3)
Assumed voluntary reinsurance	39	33	18.2	82	72	13.9
Other	59	62	(4.8)	107	114	(6.1)
Total net written premium	$1,082	$1,410	(23.3%)	$2,504	$3,139	(20.2%)

Net written premium for the three and six months ended June 30, 2009 was $1.082 billion and $2.504 billion, respectively, decreases of $328 million and $635 million from the same periods in 2008. The decreases reflect lower retention levels and new business writings across most lines of business and market segments, most pronounced in the Middle Market segment due to the change from direct distribution to third party, and a reduction in audit premium driven by a decline in exposures. In addition, workers compensation premium in the National Market segment decreased by $41 million in the quarter and $48 million on a year-to-date basis driven by a multi-year construction account written in 2008 that did not recur. On a year-to-date basis, general liability premium in the National Market segment decreased $43 million driven by a multi-year construction account written in 2008 that did not recur. Partially offsetting the decreases in both periods was an increase in assumed voluntary reinsurance included in the Other Markets segment, an increase in group disability and life business due to a broader penetration of those markets, and an increase in workers compensation, general liability and commercial automobile premium in the Specialty Lines segment due to lower ceded premium.

Results of Operations – Commercial Markets

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2009**	**2008**	**Change**	**2009**	**2008**	**Change**
Revenues	$1,530	$1,684	(9.1%)	$3,134	$3,386	(7.4%)
PTOI before catastrophes and net incurred losses attributable to prior years	$78	$119	(34.5%)	$188	$232	(19.0%)
Catastrophes[1]:						
-September 2008 Hurricanes	-	-	-	-	-	-
-All other	(28)	(44)	(36.4)	(34)	(59)	(42.4)
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	-	-	-	-	-
- All other[2]	6	12	(50.0)	25	22	13.6
Pre-tax operating income	$56	$87	(35.6%)	$179	$195	(8.2%)

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 events of September 11, 2001, the 2004 U.S. Hurricanes, the 2005 U.S. Hurricanes and the September 2008 Hurricanes. 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 $2 million and $5 million for the three and six months ended June 30, 2009, and ($6) million and $2 million for the comparable periods of 2008. Net of amortization of deferred gains on retroactive reinsurance of $13 million and $25 million for the three and six months ended June 30, 2009, and $14 million and $26 million for the comparable periods of 2008.

PTOI for the three and six months ended June 30, 2009 was $56 million and $179 million, respectively, decreases of $31 million and $16 million from the same periods in 2008. The decreases in both periods reflect an increase in workers compensation and general liability loss trends and declining earned premium, partially offset by lower non-catastrophe and catastrophe related property losses, higher net investment income and lower fixed expenses, primarily as a result of the Middle Market reorganization.

Revenues for the three and six months ended June 30, 2009 were $1.530 billion and $3.134 billion, respectively, decreases of $154 million and $252 million from the same periods in 2008. The major components of revenues are net premium earned, net investment income, and fee and other revenues.

Net premium earned for the three and six months ended June 30, 2009 was $1.249 billion and $2.570 billion, respectively, decreases of $153 million and $251 million from the same periods in 2008. The decreases in both periods reflect the decrease in net written premium during the fourth quarter of 2008 and the first half of 2009.

Net investment income for the three and six months ended June 30, 2009 was $211 million and $421 million, respectively, increases of $3 million and $10 million over the same periods in 2008. The increases in both periods primarily reflect a higher invested asset base due to the continued investment of cash flow from operations, partially offset by lower investment yields.

Fee and other revenues for the three and six months ended June 30, 2009 were $70 million and $143 million, respectively, decreases of $4 million and $11 million from the same periods in 2008. The decreases in both periods primarily reflect lower fee 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 and six months ended June 30, 2009 were $1.474 billion and $2.955 billion, respectively, decreases of $123 million and $236 million from the same periods in 2008. The decreases in both periods primarily reflect lower non-catastrophe and catastrophe related property losses and lower workers compensation losses due to a decline in premium volumes, and reserve weakening from the involuntary market workers compensation pools, partially offset by deteriorating loss trends. Compensation related expenses decreased in both periods, primarily as a result of the Middle Market reorganization. In addition, a decline in exposures and net written premium resulted in declining claims and premium tax expense in both periods.

	Three Months Ended June 30,			Six Months Ended June 30,		
COMMERCIAL MARKETS	**2009**	**2008**	**Change (Points)**	**2009**	**2008**	**Change (Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	85.6%	82.7%	2.9	84.9%	83.0%	1.9
Underwriting expense ratio	21.9	20.8	1.1	21.2	21.2	-
Dividend ratio	0.5	0.7	(0.2)	0.6	0.6	-
Subtotal	108.0	104.2	3.8	106.7	104.8	1.9
Catastrophes[1]:						
-September 2008 Hurricanes	-	-	-	-	-	-
-All other	2.6	3.5	(0.9)	1.5	2.3	(0.8)
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	-	-	-	-	-
- All other	(0.5)	(1.0)	0.5	(1.1)	(0.9)	(0.2)
Total combined ratio	110.1%	106.7%	3.4	107.1%	106.2%	0.9

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 events of September 11, 2001, the 2004 U.S. Hurricanes, the 2005 U.S. Hurricanes and the September 2008 Hurricanes. 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 and six months ended June 30, 2009 was 108.0% and 106.7%, respectively, increases of 3.8 points and 1.9 points over the comparable periods in 2008. The increase in the claims and claim adjustment expense ratio in both periods primarily reflects a higher claims and claim adjustment expense ratio in the workers compensation and general liability lines of business due to increasing loss trends and increased discount accretion, primarily from the assumed involuntary pools, combined with declining earned premium, partially offset on a year-to-date basis by lower non-catastrophe related property losses. The increase in the underwriting expense ratio in the quarter is driven by a reduction in premium taxes in the second quarter of 2008 that did not recur, partially offset by reduced overhead absorption due to the impact of the Safeco transaction and lower fixed costs related to Middle Market. The benefit from the reduced overhead in the quarter and year-to-date is partially offset by declining earned premium and a decrease in the amount of expense reimbursement received from the Company's servicing carrier operations due to the depopulation of the involuntary pools.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three and six months ended June 30, 2009 was 110.1% and 107.1%, respectively, increases of 3.4 points and 0.9 points over the same periods in 2008. The increases in both periods reflect the changes in the combined ratio previously discussed offset by lower catastrophe losses. For the quarter and year-to-date, net incurred losses attributable to prior years were impacted by a state workers compensation reinsurance association ceded premium assessment that was more than offset on a year-to-date basis by involuntary pool workers compensation reserve weakening that primarily occurred in the first quarter of 2009.

CORPORATE AND OTHER

Overview – Corporate and Other

Corporate and Other includes the following significant items:

- Certain internal discontinued operations composed of: asbestos, environmental, toxic tort exposures, 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.

- As part of its risk management program, the Company reinsures certain risks of its SBUs.

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

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

- For presentation in this MD&A, 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.

- 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.

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

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2009**	**2008**	**Change**	**2009**	**2008**	**Change**
Reinsurance, net	($295)	$34	NM	($468)	$140	NM
Workers compensation[1]	(5)	(10)	(50.0%)	(50)	(89)	(43.8%)
Other	2	1	100.0	2	2	-
Total net written premium	($298)	$25	NM	($516)	$53	NM

[1] Booked as billed adjustment
NM = Not Meaningful

Net written premium for the three and six months ended June 30, 2009 was ($298) million and ($516) million, respectively, decreases of $323 million and $569 million from the same periods in 2008. The decreases in both periods are primarily driven by an increase in externally ceded reinsurance. In the fourth quarter of 2008, the Company entered into a reinsurance contract where the Company cedes a pro rata portion of consolidated U.S. direct written homeowners premiums. The impact of this contract on net written premium was ($281) million and ($504) million, in the quarter and year-to-date, respectively. The decreases in the quarter and year-to-date also are driven by a decrease in internal reinsurance of $48 million and $105 million, respectively, partially offset by an increase in the Company's workers compensation "booked as billed" adjustment of $5 million and $39 million, respectively.

Results of Operations – Corporate and Other

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2009**	**2008**	**Change**	**2009**	**2008**	**Change**
Revenues	($319)	$175	NM	($950)	$346	NM
PTOI before catastrophes, net incurred losses attributable to prior years and private equity (loss) income:	($195)	($40)	NM	($437)	($67)	NM
Catastrophes[1]:						
-September 2008 Hurricanes	(3)	-	NM	(13)	-	NM
-All other[2]	-	(3)	(100.0)	2	(10)	NM
Net incurred losses attributable to prior years:						
- Asbestos & environmental[3]	(2)	(4)	(50.0)	(3)	(4)	(25.0)
- All other[4]	(11)	(11)	-	(13)	(20)	(35.0)
Pre-tax operating (loss) income before private equity (loss) income	(211)	(58)	NM	(464)	(101)	NM
Private equity (loss) income[5]	(18)	58	NM	(398)	118	NM
Pre-tax operating (loss) income	($229)	-	NM	($862)	17	NM

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). Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums of zero and $2 million for the three and six months ended June 30, 2009 and $1 million for the comparable periods of 2008.

2 Catastrophe losses ceded under the homeowners quota share treaty are included to the extent that the ceded combined ratio exceeds 100.0%.

3 Net of allowance for uncollectible reinsurance reduction of zero for the three and six months ended June 30, 2009, and $3 million for the comparable periods of 2008.

4 Net of amortization of deferred gains on retroactive reinsurance of $5 million and $10 million for the three and six months ended June 30, 2009 and 2008, respectively.

5 Private equity (loss) income is included in net investment income in the accompanying statements of income.

NM = Not Meaningful

Pre-tax operating loss for the three and six months ended June 30, 2009 was $229 million and $862 million, compared to zero and $17 million in the same periods in 2008. The decreases in both periods are driven by lower net investment income due to reduced valuations for investments in limited partnerships and limited liability companies, and additional ceded premium related to the restructuring of treaties in the Company's reinsurance program.

Revenues for the three and six months ended June 30, 2009 were ($319) million and ($950) million, respectively, decreases of $494 million and $1.296 billion from the same periods in 2008. The major components of revenues include net premium earned, net investment income, and fee and other revenues.

Net (ceded) premium earned for the three and six months ended June 30, 2009 was ($258) million and ($497) million, respectively, decreases of $291 million and $587 million from the same periods in 2008. The decreases in both periods primarily reflect ceded premium related to the homeowners quota share treaty and the restructuring of other treaties in the Company's reinsurance program.

Net investment loss for the three and six months ended June 30, 2009 was $49 million and $471 million, respectively, compared to income of $84 million and $173 million in the same periods in 2008. The decreases in both periods reflect reduced valuations for investments in limited partnerships and limited liability companies and lower yields due to increased cash and short-term investment holdings. Partially offsetting these decreases were increases in interest income, primarily due to a higher invested asset base resulting from the Safeco acquisition in the third quarter of 2008, debt proceeds, and the continued re-investment of cash flows from operations.

Fee and other revenues for the three and six months ended June 30, 2009 were $31 million and $43 million, decreases of $1 million and $21 million from the same periods in 2008. The decreases in both periods primarily reflect a decrease in oil and gas revenues due to price declines, partially offset by $11 million of gains on early extinguishment of debt.

Claims, benefits and expenses for the three and six months ended June 30, 2009 were ($47) million and ($63) million, respectively, decreases of $196 million and $373 million from the same periods in 2008. The decreases in both periods primarily reflect ceded losses and expenses associated with the homeowners quota share reinsurance treaty and favorable variable annuity reserve development versus unfavorable development in prior periods, partially offset by higher interest expense as a result of the Company's May 2008 debt offering and other corporate expenses primarily related to employee benefits.

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 June 30, 2009 and December 31, 2008:

$ in Millions	**As of June 30, 2009**		**As of December 31, 2008**	
Invested Assets by Type	**Carrying Value**	**% of Total**	**Carrying Value**	**% of Total**
Fixed maturities, available for sale, at fair value	$52,194	81.9%	$47,731	79.9%
Equity securities, available for sale, at fair value	957	1.5	1,184	2.0
Trading securities, at fair value	1	-	1	-
Limited partnerships and LLCs	2,338	3.7	2,534	4.2
Commercial mortgage loans	1,070	1.7	1,090	1.8
Short-term investments	740	1.2	1,193	2.0
Other investments	171	0.2	194	0.3
Cash and cash equivalents	6,236	9.8	5,848	9.8
Total invested assets	$63,707	100.0%	$59,775	100.0%

Total invested assets as of June 30, 2009 were $63.707 billion, an increase of $3.932 billion or 6.6% over December 31, 2008. The increase reflects investment of cash from operations and a decrease in unrealized losses primarily due to a decrease in credit spreads. Partially offsetting the increase was a general decline in the valuations of private equity investments.

Fixed maturities as of June 30, 2009 were $52.194 billion, an increase of $4.463 billion or 9.4% over December 31, 2008. The increase reflects market value increases, favorable exchange rates, and additional purchases of fixed income securities.

Equity securities available for sale as of June 30, 2009 were $957 million ($539 million common stock and $418 million preferred stock versus $694 million common stock and $490 million preferred stock as of December 31, 2008), a decrease of $227 million or 19.2% from December 31, 2008. Of the $539 million of common stock at June 30, 2009, $201 million relates to securities associated with non-guaranteed unit linked products where the policyholder bears the investment risk. The decrease in total equity securities available for sale primarily reflects the execution of a program to reduce the Company's existing and acquired exposure to the common equity markets.

Investments in limited partnerships and LLCs as of June 30, 2009 were $2.338 billion, a decrease of $196 million or 7.7% from December 31, 2008. These investments consist of traditional private equity partnerships of $1.391 billion, other partnerships (primarily energy) of $504 million, and real estate partnerships of $443 million. The decrease from December 31, 2008 primarily reflects a decline in market value. 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 June 30, 2009 were $1.070 billion (net of $4.5 million of loss reserve or 0.4% of the outstanding loan portfolio), a decrease of $20 million or 1.8% from December 31, 2008. The decrease reflects $16 million in principal repayments. The entire commercial loan portfolio is U.S. based. As of June 30, 2009, the average total loan size was $1.5 million and the average loan participation size was $0.5 million. The number of loans in the portfolio decreased from 2,257 at December 31, 2008 to 2,250 at June 30, 2009. Approximately 90% of the loans are full or partial recourse to borrowers.

Short term investments as of June 30, 2009 were $740 million, a decrease of $453 million or 38.0% from December 31, 2008. This decrease reflects a decline in short term assets held as collateral in connection with the Company's security lending program and the movement of assets to longer duration securities.

Cash and cash equivalents as of June 30, 2009 were $6.236 billion, an increase of $388 million or 6.6% over December 31, 2008. This increase reflects cash generated from operations and the previously mentioned security sales, partially offset by the purchase of long-term securities.

In January 2008, the Company adopted FASB Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, which establishes a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value. As of June 30, 2009, excluding separate accounts and other assets, the Company reflected $1.737 billion as level 1 (quoted prices in active markets) primarily comprised 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 June 30, 2009, the Company reported $51.211 billion as level 2, consisting primarily of various fixed maturity securities. Finally, the Company reported $1.077 billion as level 3 (unobservable inputs), primarily comprised of international and privately held securities for which a market price is not readily available.

As of June 30, 2009, the Company had unfunded commitments in traditional private equity partnerships, real estate, and energy and other of $1.033 billion, $401 million and $448 million respectively. As of June 30, 2009, the Company had commitments to purchase various residential mortgage-backed securities at a cost of $847 million (fair value of $849 million) and various corporate and municipal securities at a cost of $276 million (fair value of $279 million).

As of June 30, 2009, no single issuer, excluding U.S. Treasuries, agency securities and mortgage-backed securities, accounted for more than 1% of invested assets.

The following table summarizes the Company's fixed maturity portfolio by security type as of June 30, 2009 and December 31, 2008:

June 30, 2009	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. government and agency securities	$2,189	$159	($6)	$ 2,342
Mortgage and asset-backed securities:				
Residential	9,696	346	(218)	9,824
Commercial	2,273	14	(173)	2,114
Other mortgage and ABS securities	1,621	61	(42)	1,640
U.S. state and municipal	14,334	373	(245)	14,462
Corporate and other	19,154	500	(1,012)	18,642
Foreign government securities	3,158	109	(97)	3,170
Total fixed maturities	52,425	1,562	(1,793)	52,194
Total equity securities	1,043	148	(234)	957
Total securities available for sale	$53,468	$1,710	($2,027)	$53,151

December 31, 2008	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. government and agency securities	$2,105	$272	($2)	$2,375
Mortgage and asset-backed securities:				
Residential	8,422	267	(247)	8,442
Commercial	2,229	6	(256)	1,979
Other mortgage and ABS securities	1,614	27	(62)	1,579
U.S. state and municipal	14,277	143	(702)	13,718
Corporate and other	18,637	236	(1,866)	17,007
Foreign government securities	2,618	123	(110)	2,631
Total fixed maturities	49,902	1,074	(3,245)	47,731
Total equity securities	1,279	215	(310)	1,184
Total securities available for sale	$51,181	$1,289	($3,555)	$48,915

The following table summarizes the Company's mortgage and asset-backed fixed maturity portfolio by credit quality as of June 30, 2009:

$ in Millions	**As of June 30, 2009**							
Mortgage & Asset-Backed Fixed Maturities by Credit Quality	**AAA**	**AA**	**A**	**BBB**	**BB**	**B or Lower**	**Total**	**% of Total**
SBA loans	$1,225	$-	$-	$-	$-	$-	$1,225	9.0%
GNMA residential mortgage	2,854	-	-	-	-	-	2,854	21.0
FNMA residential mortgage	2,508	-	-	-	-	-	2,508	18.5
FHLMC residential mortgage	3,813	-	-	-	-	-	3,813	28.1
Prime residential mortgage	245	-	6	30	16	137	434	3.2
Alt-A residential mortgage	85	8	18	-	19	19	149	1.1
Sub-prime residential mortgage	38	1	9	13	-	5	66	0.5
Commercial mortgage backed securities	2,014	81	11	8	-	-	2,114	15.6
Non-mortgage asset backed securities	300	33	42	28	8	4	415	3.0
Total	$13,082	$123	$86	$79	$43	$165	$13,578	100.0%
% of Total	96.3%	0.9%	0.6%	0.6%	0.3%	1.3%	100.0%	

More than 76% 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). During 2009, the Company has moved some of its liquidity into longer term mortgage backed securities. Over 96% of the mortgage & asset-backed holdings are rated AAA. The commercial mortgage backed securities portfolio is well diversified and of high quality with 99.1% rated AA or above, approximately 20% of the underlying collateral having been defeased with U.S. Treasuries, and less than 10% of the holdings backed by 2006 to 2008 vintage transactions.

The following table summarizes the Company's allocation of fixed maturities by credit quality as of June 30, 2009 and December 31, 2008:

$ in Millions	**As of June 30, 2009**		**As of December 31, 2008**	
Fixed Maturities by Credit Quality[1]	**Market Value**	**% of Total**	**Market Value**	**% of Total**
AAA	$23,004	44.1%	$21,786	45.6%
AA+, AA, AA-	9,427	18.1	9,162	19.2
A+, A, A-	9,917	19.0	9,156	19.2
BBB+, BBB, BBB-	5,969	11.4	4,776	10.0
BB+, BB, BB-	2,200	4.2	1,575	3.3
B+, B, B-	1,101	2.1	897	1.9
CCC or lower	576	1.1	379	0.8
Total fixed maturities	$52,194	100.0%	$ 47,731	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 decreased slightly to 92.6% at June 30, 2009 from 94.0% December 31, 2008 due to rating agency actions affecting the existing portfolio and tightening of credit spreads. Overall, the average credit quality rating stands at AA-.

The Company had 7.4% of its fixed maturity securities invested in non-investment grade securities at June 30, 2009. 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 June 30, 2009 and December 31, 2008:

$ in Millions	As of June 30, 2009		As of December 31, 2008	
Fixed Maturities by Maturity Date	**Market Value**	**% of Total**	**Market Value**	**% of Total**
1 yr or less	$2,060	3.9%	$1,669	3.5%
Over 1 yr through 5 yrs	10,861	20.8	9,764	20.5
Over 5 yrs through 10 yrs	10,813	20.7	9,689	20.3
Over 10 years	14,882	28.6	14,609	30.6
Mortgage and asset-backed securities	13,578	26.0	12,000	25.1
Total fixed maturities	$52,194	100.0%	$47,731	100.0%

During 2009, 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 and six months ended June 30, 2009 and 2008:

$ in Millions	Three Months Ended June 30,		Six Months Ended June 30,	
Net Investment Income	**2009**	**2008**	**2009**	**2008**
Taxable interest income	$559	$565	$1,125	$1,149
Tax-exempt interest income	156	106	309	212
Dividends	14	31	23	55
Limited partnerships and limited liability companies	(20)	58	(393)	118
Commercial mortgage loans	16	12	33	22
Other investment income	2	9	6	11
Gross investment income	727	781	1,103	1,567
Investment expenses	(30)	(27)	(69)	(56)
Net investment income	$697	$754	$1,034	$1,511

Net investment income for the three and six months ended June 30, 2009 was $697 million and $1.034 billion, respectively, representing decreases of $57 million and $477 million from the same periods in 2008. The decreases in both periods reflect reduced valuations for investments in limited partnerships and limited liability companies and lower yields due to increased cash and short-term investment holdings. Partially offsetting these decreases were increases in interest income, primarily due to a higher invested asset base resulting from the Safeco acquisition in the third quarter of 2008, debt proceeds, and the continued re-investment of cash flows from operations.

Net Realized Investment Gains (Losses)

The following tables summarize the Company's net realized investment gains (losses) for the three and six months ended June 30, 2009 and 2008:

$ in Millions Net Realized Investment Gains (Losses)	Sales & Dispositions	Impairments	Change in Derivatives Value	Total
Three Months Ended June 30, 2009:				
Fixed maturities	$21	($51)	$-	($30)
Common and preferred stock	12	(11)	-	1
Other	2	-	-	2
Total	$35	($62)	$-	($27)
Three Months Ended June 30, 2008:				
Fixed maturities	($16)	($21)	$-	($37)
Common and preferred stock	69	(43)	-	26
Other	-	-	16	16
Total	$53	($64)	$16	$5
Six months ended June 30, 2009:				
Fixed maturities	($3)	($126)	$-	($129)
Common and preferred stock	90	(44)	-	46
Other	42	(5)	25	62
Total	$129	($175)	$25	($21)
Six Months Ended June 30, 2008:				
Fixed maturities	($20)	($36)	$-	($56)
Common and preferred stock	74	(59)	-	15
Other	1	-	33	34
Total	$55	($95)	$33	($7)

$ in Millions	Three Months Ended June 30,		Six Months Ended June 30,	
Components of Net Realized Investment (Losses) Gains	**2009**	**2008**	**2009**	**2008**
Fixed maturities:				
Gross realized gains	$31	$23	$55	$55
Gross realized losses	(61)	(60)	(184)	(111)
Equities:				
Gross realized gains	13	95	108	111
Gross realized losses	(12)	(69)	(62)	(96)
Other:				
Gross realized gains	4	18	70	36
Gross realized losses	(2)	(2)	(8)	(2)
Total net realized investment (losses) gains	($27)	$5	($21)	($7)

Net realized investment losses for the three and six months ended June 30, 2009 were ($27) million and ($21) million, respectively, versus gains of $5 million and losses of ($7) million in the same periods in

2008. The decrease in the quarter is primarily related to $16 million in gains recorded in the second quarter of 2008 related to derivative contracts the Company used to partially hedge its equity exposure. The final contract terminated in January 2009. In addition, second quarter 2008 reflects gains from equity sales related to securities sold to fund the Safeco acquisition. The six months ended June 30, 2009 reflects higher impairment losses than the same period in 2008 on fixed maturity investments deemed to be other-than-temporarily impaired. Partially offsetting these impairment losses were gains recognized primarily in the first quarter of 2009 from sales related to the Company's decision to reduce its exposure to the equity markets, and other net gains. In addition, the Company recorded net derivative gains of $25 million and $33 million for the six months ended June 30, 2009 and June 30, 2008, respectively, associated with derivative contracts the Company used to partially hedge its equity exposure.

The following table summarizes the Company's impairments by issuer for the three and six months ended June 30, 2009:

$ in Millions	**Three Months Ended June 30, 2009**				
Impairments by Issuer	**Fixed Maturities**	**Preferred Stock**	**Common Stock**	**Other**	**Total by Issuer**
Bank of America	($8)	($9)	$-	$-	($17)
Seitel Inc	(4)	-	-	-	(4)
General Electric Corp	(4)	-	-	-	(4)
Total Other	(35)	(2)	-	-	(37)
Total by Security Type	**($51)**	**($11)**	**$-**	**$-**	**($62)**

$ in Millions	**Six Months Ended June 30, 2009**				
Impairments by Issuer	**Fixed Maturities**	**Preferred Stock**	**Common Stock**	**Other**	**Total by Issuer**
Bank of America	($20)	($16)	$-	$-	($36)
MGM Mirage	(12)	-	-	-	(12)
Commonwealth of Puerto Rico	(10)	-	-	-	(10)
Citigroup	-	(9)	-	-	(9)
Total Other	(84)	(9)	(10)	(5)	(108)
Total by Security Type	**($126)**	**($34)**	**($10)**	**($5)**	**($175)**

The following table summarizes the Company's unrealized losses and fair value by security type by duration of potential impairment as of June 30, 2009:

$ in Millions	**Less Than 12 Months**		**Greater Than 12 Months**	
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	($4)	$254	($2)	$2
Mortgage and asset-backed securities:				
Residential	(40)	752	(178)	369
Commercial	(37)	592	(136)	1,123
Other mortgage and ABS securities	(36)	175	(6)	66
U.S. state and municipal	(92)	2,436	(153)	1,200
Corporate and other	(176)	2,488	(836)	4,954
Foreign government securities	(54)	603	(43)	160
Total fixed maturities	(439)	7,300	(1,354)	7,874
Common stock	(13)	86	(43)	87
Preferred stock	(12)	38	(166)	271
Total equities	(25)	124	(209)	358
Total	($464)	$7,424	($1,563)	$8,232

Unrealized losses decreased from $3.555 billion as of December 31, 2008 to $2.027 billion as of June 30, 2009 primarily due to a decrease in credit spreads,. Unrealized losses less than 12 months decreased from $1.869 billion at December 31, 2008 to $464 million as of June 30, 2009 and accounted for $1.405 billion of the overall decrease in unrealized losses. Unrealized losses greater than 12 months decreased from $1.686 billion to $1.563 billion at December 31, 2008 and June 30, 2009 respectively, a decrease of $123 million. Included in the $1.563 billion of unrealized losses were $775 million of unrealized losses on securities that had been in an unrealized loss position of 10% or greater for more than twelve months. 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.

Effective January 1, 2009, the Company adopted FASB Staff Position FAS 115-2 and 124-2 *Recognition and Presentation of Other-Than-Temporary Impairments.* See Footnote 1 to the Unaudited Financial Statements as of and for the three and six months ended June 30, 2009 for details. In the first quarter of 2009, the Company recorded a cumulative effect adjustment, net of U.S. and foreign income taxes, in the amount of $28 million. The adjustment was an increase to policyholders' unassigned equity and a corresponding decrease to accumulated other comprehensive income.

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 it will be able to collect all cash flows due on its fixed income securities, then the carrying value of the investment is written down to fair value and a non-credit impairment loss is recorded in policyholders' equity. If the Company believes a decline in value to be other-than-temporary and the Company will not collect all cash flows due from the fixed income security, than the carrying value is written down to the expected cash flow amount and a realized loss is recorded.

As a result of the Company's quarterly other-than-temporary impairment review, for the three and six months ended June 30, 2009, the Company recorded $51 million and $126 million, respectively, of impairment losses related to fixed maturities and has concluded that the remaining gross unrealized losses of fixed maturity securities as of June 30, 2009 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 June 30, 2009 resulted primarily from decreases in quoted market 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. For the three and six months ended June 30, 2009, the Company recorded $11 million and $44 million, respectively, of impairment losses related to equity securities and has concluded that the remaining gross unrealized losses of equity securities as of June 30, 2009 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 June 30, 2009 (including cash and cash equivalents) totaled $63.707 billion.

Current maturities of long-term debt outstanding at June 30, 2009 and December 31, 2008 was as follows:

$ in Millions	**As of June 30, 2009**	**As of December 31, 2008**
Commercial paper	$-	$-
Revolving credit facilities	-	-
Current maturities of long-term debt[1]	300	-
Total current maturities of long-term debt	$300	$-

[1] Reflects debt originally issued by Safeco. On December 29, 2008, $281 million of the outstanding $300 million 4.875% notes due 2010 were exchanged for a like principal amount of newly issued Liberty Mutual Group Inc. ("LMGI") notes.

The increase in current maturities of long-term debt reflects the current maturity of the 4.875% notes due 2010.

Long-term debt outstanding at June 30, 2009 and December 31, 2008 was as follows:

$ in Millions	**As of June 30, 2009**	**As of December 31, 2008**
4.875% Notes, due 2010[1]	$-	$300
7.25% Notes, due 2012[1]	204	204
8.00% Notes, due 2013	260	260
7.86% Medium term notes, due 2013	25	25
5.75% Notes, due 2014	500	500
7.30% Notes, due 2014[2]	200	200
6.70% Notes, due 2016	250	250
7.00% Subordinated notes, due 2067[3]	300	300
8.50% Surplus notes, due 2025	150	150
7.875% Surplus notes, due 2026	250	250
7.63% Notes, due 2028	3	3
7.00% Notes, due 2034	245	250
6.50% Notes, due 2035	490	500
7.50% Notes, due 2036	477	500
7.80% Subordinated notes, due 2087[4]	700	700
10.75% Subordinated notes, due 2088[5]	1,250	1,250
7.697% Surplus notes, due 2097	500	500
Subtotal	5,804	6,142
Unamortized discount	(52)	(53)
Total long-term debt excluding current maturities	$5,752	$6,089

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

As part of its overall capital strategy, the Company previously announced that it may issue, repurchase or exchange debt depending on market considerations. Debt repurchases may be done through open market or other appropriate transactions. During the three months ended June 30, 2009, the Company repurchased $5 million of the 7.00% Notes due 2034, $10 million of the 6.50% Notes due 2035 and $23 million of the 7.50% Notes due 2036. A gain of $11 million was recorded on the transactions and is included in fee and other revenues in the accompanying statements of income. The Company continues to periodically repurchase debt securities depending on market conditions, subject to applicable limitations.

Debt Transactions and In-force Credit Facilities

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

The Company places commercial paper through a $1 billion program issued by LMGI and guaranteed by LMIC. The program is backed by two revolving credit facilities totaling $750 million. On February 24, 2009, LMGI entered into a $30 million unsecured revolving credit facility which terminates on July 25, 2010. On March 16, 2009, the five-year $750 million credit facility, which also terminates on July 25, 2010, was amended to remove a lender with a $30 million commitment in the facility. To date, no funds have been borrowed under either facility.

On December 29, 2008, the following transactions occurred:

- LMGI exchanged $281 million of the outstanding $300 million Safeco 4.875% Senior Notes due 2010 for a like principal amount of newly issued LMGI 4.875% Senior Notes due 2010.

- LMGI exchanged $187 million of the outstanding $204 million Safeco 7.25% Senior Notes due 2012 for a like principal amount of newly issued LMGI 7.25% Senior Notes due 2012.

- LMGI exchanged $180 million of the outstanding $200 million Ohio Casualty 7.30% Senior Notes due 2014 for a like principal amount of newly issued LMGI 7.30% Senior Notes due 2014.

Safeco and Ohio Casualty received and accepted the requisite consents to enable each to execute a supplemental indenture governing the Safeco and Ohio Casualty Senior Notes that remain outstanding. In connection with the consents, LMGI paid approximately $5.6 million in consideration to the noteholders. These costs were capitalized and will be amortized into income over the remaining term of the respective newly issued LMGI Senior Notes. The supplemental indenture eliminated substantially all restrictive covenants and eliminated or modified certain events of default.

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

On May 29, 2008, LMGI issued series C junior subordinated notes (the "Series C Notes") with a face amount of $1.25 billion. The Series C Notes are scheduled for redemption on June 15, 2058 with a final maturity of June 15, 2088. LMGI may redeem the Series C Notes in whole or in part, on June 15, 2038 and on each interest payment date thereafter at their principal amount plus accrued and unpaid interest to the date of redemption, or prior to June 15, 2038, (i) in whole or in part at any time at their principal amount or, if greater, a make-whole price, or (ii) in certain circumstances, in whole at their principal amount plus accrued and unpaid interest to the date of redemption or, if greater, a special event make-whole price. Interest is payable semi-annually at a fixed rate of 10.75% up to, but excluding, the final fixed rate interest payment date. In the event the Series C Notes are not redeemed on or before the final fixed rate interest payment date, interest will accrue at an annual rate of three-month LIBOR plus 7.12%, payable quarterly in arrears. LMGI has the right to defer interest payments on the Series C Notes for a period up to ten years. Interest compounds during periods of deferral. In connection with the issuance of the Series C Notes, LMGI entered into a replacement capital covenant ("RCC"). As part of the RCC, LMGI agreed that it will not repay, redeem, defease or purchase the Series C Notes on or before the relevant RCC termination date unless, subject to certain limitations, it has received proceeds from the sale of specified capital securities. The RCC will terminate upon the occurrence of certain events, including an acceleration of the Series C Notes, and may not be enforced by the holders of the Series C Notes. The RCC is for the benefit of holders of the specified series of LMGI's indebtedness (initially LMGI's 7.50% Senior Notes due 2036).

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

On June 9, 2006, Liberty Mutual Insurance Europe Limited entered into a $20 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 June 30, 2009, no borrowings were outstanding under the facility.

Interest Expense

Consolidated interest expense for the three and six months ended June 30, 2009 was $123 million and $245 million, respectively, increases of $30 million and $69 million over the same periods in 2008. The increases were principally due to the Series C Notes and debt resulting from the Safeco acquisition. As previously discussed, the Company continues to periodically repurchase debt securities depending on market considerations, 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 June 30, 2009, the Company, through its downstream subsidiary LMGI, had $5.145 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. 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 and adequate to its financial needs. 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, 2008) and 2009 dividend capacity prior to needing regulatory approval for LMIC, LMFIC and EICOW were as follows:

$ in Millions	**RBC Ratio [1]**		**Dividend Capacity[2]**
RBC Ratios and Dividend Capacity	**2008**	**2007**	**2009**
LMIC [3]	402%	519%	$1,449
LMFIC [3]	501%	507%	$89
EICOW [3]	362%	516%	$95

[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] Any reallocation of surplus between insurance subsidiaries could change the dividend capacity of individual companies within the group. Effective January 1, 2009, the LMIC pooling percentage decreased from 75.9% to 75.0%, the LMFIC pooling percentage increased from 10.0% to 12.9%, and the EICOW pooling percentage decreased from 10.0% to 8.0%.

As of January 1, 2009, 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 of approximately $50 million in 2009 for services rendered 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 and six months ended June 30, 2009, LCS recorded $100 million and $157 million in pre-tax income, respectively.
- 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 $13.011 billion and $12.330 billion at June 30, 2009, and December 31, 2008, respectively. The increase in surplus primarily reflects net income of $309 million (the sum of earnings from the Company's 64 domestic insurance companies and dividends from subsidiaries), a decrease in non-admitted assets of $261 million primarily related to goodwill from acquisitions and deferred tax assets, and unrealized gains of $130 million.

CRITICAL ACCOUNTING POLICIES

Critical Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the Company 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:

- unpaid claims and claim adjustment expense reserves, including asbestos and environmental liability reserves and loss sensitive premium attributable to prior years;
- reinsurance recoverables and associated uncollectible reserves;
- impairments to the fair value of the investment portfolio;
- deferred acquisition costs;
- valuation of goodwill and intangible assets; and
- deferred income tax valuation allowance.

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

Certain reclassifications have been made to the 2008 tables to conform to the 2009 tables.

Adoption of New Accounting Standards

Effective June 30, 2009, the Company adopted Statement of Financial Accounting Standard No. 165 *"Subsequent Events"* ("SFAS 165"). SFAS 165 establishes general standards of accounting for, and disclosure of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, SFAS 165 specifies the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize these events or transactions, and the respective required disclosures. See Note 8 in the Unaudited Consolidated Financial Statements as of and for the three and six months ended June 30, 2009 for further detail.

Effective January 1, 2009, the Company adopted Financial Accounting Standards Board ("FASB") Staff Position ("FSP") No. FAS 115-2 and 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* ("FSP FAS 115-2 and 124-2"). FSP FAS 115-2 and 124-2 amended the accounting for other-than-temporary impairment of debt securities, requires the establishment of a policy for determining when "credit losses" exist and provides guidance on determining the amount of impairment to be recognized in the statement of income. As a result of the adoption, the Company recognized an increase of $28 million (net of tax) in policyholders' unassigned equity and a corresponding decrease to accumulated comprehensive loss. See Note 1 in the Unaudited Consolidated Financial Statements as of and for the three and six months ended June 30, 2009 for further detail.

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurement*, ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States, and enhances disclosures about fair value measurements. SFAS 157 provides guidance on how to measure fair value when required under existing accounting standards. The Statement establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels ("Level 1, 2 and 3"). Level 1 inputs are observable inputs that reflect quoted prices for identical assets or liabilities in active markets the Company has the ability to access at the measurement date. Level 2 inputs are observable inputs, other than quoted prices included in Level 1, for the asset or liability. Level 3 inputs are unobservable inputs reflecting the Company's estimates of the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). Certain derivatives recorded at fair value based on the requirements of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,"* ("SFAS 133") are impacted by the application of SFAS 157. The adoption of SFAS 157 did not have a material effect on the Company's results of operations, financial position or liquidity. See Note 11 to the 2008 Audited Consolidated Financial Statements for further detail.

Effective January 1, 2008, the adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, *Including an Amendment of SFAS 115* ("SFAS 159"). The Company has not made any fair value elections under SFAS 159.

Effective January 1, 2008, the Company adopted Emerging Issues Task Force ("EITF") issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements* ("EITF 06-4"). This issue provides guidance on the recognition and measurement of assets related to collateral assignment split-dollar life insurance arrangements. The adoption of EITF 06-4 resulted in a decrease to policyholders' equity of $41 million.

None of the other accounting standards adopted by the Company in the first or second quarter of 2009 had a material impact on the Company. See Note 1 in the Unaudited Consolidated Financial Statements as of and for the three and six months ended June 30, 2009 for further detail.

Future Adoption of New Accounting Standards

None of the new accounting standards that will be adopted by the Company in 2009 are expected to have a material impact on the Company. See Note 1 in the 2009 Unaudited Consolidated Financial Statements for details.

Unpaid Claims and Claim Adjustment Expenses

Reserves for property-casualty unpaid claims and claim adjustment expenses were $49.1 billion and $48.7 billion at June 30, 2009 and December 31, 2008, respectively. The increase was primarily due to acquisitions and business growth less the on-going settlement of claims.

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 litigated cases, medical costs, and cost of repair materials and labor rates can all affect ultimate claim costs. In addition, the span of time between the incidence of a loss and the payment or settlement of the claim can be a critical part of reserving determinations and will cause more variability in the ultimate claim cost. 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 A&E reserves for unpaid claims and claim adjustment expenses were $1.347 billion and $1.396 billion at June 30, 2009 and December 31, 2008, respectively, net of reinsurance and including an allowance for uncollectible reinsurance.

In the third quarter of 2007, the Company completed its biennial ground-up asbestos reserve study and increased its asbestos reserves by $90 million. 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. In addition, an internationally known actuarial consulting firm performed its own independent review of the Company's asbestos reserves and confirmed the reasonableness of the reserve increase.

As part of the internal review, potential exposures of large policyholders were individually evaluated using the Company's proprietary stochastic model, which is consistent with the latest published actuarial paper on asbestos reserving. Among the factors reviewed in depth by the team 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. Small policyholders were evaluated using aggregate methods that utilized information developed from the large policyholders. Additionally, a provision of pure IBNR was established for the potential emergence of first-time filers of future asbestos claims.

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's 2003 acquisition of PruPac included $190 million and $130 million of gross and net A&E reserves, respectively. Any increase in A&E reserves related to PruPac 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 $15.425 billion and $15.309 billion at June 30, 2009 and December 31, 2008, respectively, net of allowance for doubtful accounts. The increase is primarily due to the purchase of additional quota share protection in 2009.

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. Credit risk with respect to this servicing carrier business is the composite of the cumulative creditworthiness of all participants in their respective pools.

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% 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 at June 30, 2009. Collateral held against outstanding gross reinsurance recoverable balances was $5.771 billion and $5.418 billion at June 30, 2009 and December 31, 2008, respectively.

The remaining 5% of the Company's net reinsurance recoverable balance is well diversified. No single reinsurer rated B++ or below by A.M. Best accounts for more than 2% of statutory surplus as regards policyholders. In addition, the average net reinsurance recoverable balance from individual reinsurers rated below A- or not rated by A.M. Best was approximately $1 million as of June 30, 2009.

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 7.7% annually. These contracts resulted in deferred gains (including experience related profit accruals of $195 million that are amortized into income using the effective interest method over the estimated settlement periods. At June 30, 2009 and December 31, 2008, deferred gains related to these reinsurance arrangements were $709 million and $725 million, respectively, and are included in other liabilities within the consolidated balance sheets. Interest credited to the funds held balances was $29 million and $58 million for the three and six months ended June 30, 2009, respectively, as compared to $30 million and $59 million for the three months and six months ended June 30, 2008, respectively. Deferred gain amortization for the three months and six months ended June 30, 2009 was $17 million and $33 million, respectively, as compared to $17 million and $33 million for the three months and six months ended June 30, 2008, respectively. Reinsurance recoverables related to these transactions, including experience related profit accruals, were $2.150 billion and $2.165 billion as of June 30, 2009, and December 31, 2008, respectively.

Additionally, the Company has an aggregate stop loss program covering substantially all of Commercial Markets voluntary workers compensation business from the fourth quarter 2000 through the fourth quarter 2002 accident year periods. Under these contracts, losses in excess of a specified loss ratio are reinsured up to a maximum loss ratio and were accounted for as prospective reinsurance at inception. However, due to a material contract change at the January 1, 2002 renewal, premium and loss activity subsequent to December 31, 2001 is now accounted for as retroactive reinsurance for coverage provided from the fourth quarter 2000 through the fourth quarter 2001 covered accident year periods. The retroactive portion of the aggregate stop loss program is included in the preceding paragraph.

In 2006, the Company entered into multi-year property catastrophe reinsurance agreements with Mystic Re Ltd. ("Mystic Re"), a Cayman Islands domiciled reinsurer, to provide $525 million of additional reinsurance coverage for the Company in the event of a Northeast hurricane. The reinsurance agreements were collateralized through a trust and guarantee received by Mystic Re from the issuance of catastrophe bonds and provided coverage for hurricane-related losses from Washington, D.C. to Maine based on industry insured losses as reported by Property Claim Services. As of December 31, 2008, $325 million of the original $525 million of Mystic Re matured. As of May 31, 2009, the remaining $200 million matured. As no events attached to these issues, the respective collateral was released. Mystic Re does not have any other reinsurance in force.

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 additional reinsurance coverage for the Company in the event of a Northeast and/or Florida hurricane event. In the first quarter of 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 provide coverage for hurricane or earthquake-related losses based on industry insured losses as reported by Property Claim Services. The Company has not recorded any recoveries under these programs. Mystic Re II does not have any other reinsurance in force.

In 2009, the Company entered into property catastrophe reinsurance programs for which the Company has received $219 million of collateral. The Company has not recorded any recoveries under these programs.

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 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 total impairment losses for the three and six months ended June 30, 2009 were $62 million and $175 million, respectively, a decrease of $2 million and an increase of $80 million versus the same periods in 2008. Of the $51 million and $126 million of fixed maturity impairments recognized for the three and six months ended June 30, 2009, respectively, ($5) million and $28 million were recognized as non-credit impairments as required under FSP FAS 115-2.

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 income securities where the Company does not expect to recover the entire amortized cost basis of the security, the Company will evaluate whether the other-than-temporary is a credit or a non-credit impairment based on the guidance outlined in FSP FAS 115-2. 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 market value.

Subsequent to June 30, 2009, the Company has not recognized any additional material other-than-temporary impairments.

Variable Interest Entities

The Company's exposure to investment structures subject to analysis under FIN 46(R) relate primarily to investments in energy, private equity, and real estate limited partnerships that are accounted for under the equity method. The Company has been deemed to be the primary beneficiary for 2 VIEs in the energy investment sector, and therefore it consolidates those 2 VIEs in its financial statements. In addition, the Company has investments in 64 VIEs for which it is not the primary beneficiary at June 30, 2009 and December 31, 2008. The Company's investments in VIEs were $562 million and $623 million at June 30, 2009 and December 31, 2008, respectively. The Company's maximum exposure to losses from VIEs was $1.161 billion and $1.267 billion as of June 30, 2009 and December 31, 2008, respectively, and there is no recourse provision to the general credit of the Company 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 insurance subsidiary that has entered into derivative transactions. Pursuant to the policy, the Company may enter into derivative transactions. As of June 30, 2009 and December 31, 2008, the Company had one interest rate swap remaining that was acquired with the assets and liabilities of the Genesis life insurance business, with a value of approximately $0.3 million.

Beginning in January 2008, the Company, as part of its risk management program and diversification strategy, entered into several futures contracts related to the equities market with notional amounts totaling $599 million. All futures contracts concluded in March 2008 and the Company realized gains of $26 million on these transactions. Subsequent to the above transactions, the Company entered into a $600 million notional equity swap agreement. For the six months ended June 30, 2008 the Company incurred a $7 million gain related to the change in value of this swap contract. The contract expired in January, 2009, however, earlier termination was allowed. The contract was terminated in December 2008 and the Company realized gains of $187 million on this transaction. In August 2008, the Company entered into two additional equity swap agreements with a total notional amount of $335 million. These contracts matured in January 2009 resulting in realized gains of $25 million for the six months ended June 30, 2009.

Deferred Acquisition Costs and Acquired In-force Policy Intangibles

Total deferred policy acquisition costs and acquired in-force policy intangibles were $2.591 billion and $2.541 billion as of June 30, 2009 and December 31, 2008, 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. Acquired in-force policy intangibles are costs associated with the acquisitions of Ohio Casualty and Safeco that equal the fair value of in-force insurance contracts at the date of acquisition.

Goodwill

Goodwill assets were $4.675 billion and $4.645 billion at June 30, 2009 and December 31, 2008, respectively.

Deferred Income Taxes

The net deferred income tax asset was $2.574 billion and $3.166 billion as of June 30, 2009 and December 31, 2008, respectively, net of a valuation allowance of $145 million and $131 million, respectively. The net increase in the Company's valuation allowance is primarily due to increases in foreign currency translation adjustments. 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 January 1, 2009	$221
Additions based on tax positions related to current year	10
Additions for tax positions of prior years	22
Reductions for tax positions of prior years	(1)
Settlements	(1)
Balance at June 30, 2009	$251

The beginning balance has been adjusted to reflect tax liabilities and to remove anticipated tax recoverables. Included in the tabular rollforward of unrecognized tax benefits is interest in the amount of $72 million and $84 million at January 1, 2009 and June 30, 2009 respectively.

Included in the balance at June 30, 2009, are $136 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 six months ended June 30, 2009 and the year ended December 31, 2008, the Company recognized approximately $12 million and $8 million in interest and penalties, respectively. The Company had approximately $78 million and $66 million of interest and penalties accrued at June 30, 2009 and December 31, 2008, respectively.

On October 15, 2008, the Company prevailed in its suit for refund of overpaid federal income tax for the 1990 tax year, based on the treatment of salvage and subrogation. The United States District Court, District of Massachusetts, in *Liberty Mutual Insurance Co. v. United States* and *Liberty Mutual Fire Ins. Co. v. United States*, ruled that the amount of income tax refund due and deficiency interest refund due was $42 million and $40 million respectively, plus statutory interest on the income tax and deficiency interest refunds until paid. On June 10, 2009, the United States Court of Appeals for the First Circuit entered a judgment that dismissed the Government's notice of appeal.

The IRS is currently reviewing the Company's federal tax returns for the 1999 through 2005 tax years. The IRS is also reviewing Safeco Corporation and subsidiaries' federal tax returns for the 2005 through 2007 tax years. Any adjustments that may result from the IRS examination of these income tax returns are not expected to have a material impact on the financial position, liquidity or results of operations of the Company.

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 fifth largest property and casualty insurer in the U.S. based on 2008 direct written premium. The Company also ranks 86th on the Fortune 500 list of largest corporations in the United States based on 2008 revenue. As of December 31, 2008, LMG had $104.316 billion in consolidated assets, $94.156 billion in consolidated liabilities, and $28.855 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: Personal Markets, Commercial Markets, Agency Markets and International. 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 47,000 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.