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

Quarter Ended June 30, 2010

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, 2010 and 2009. This Management's Discussion & Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the Company's 2009 Annual Report, 2010 Unaudited Consolidated Financial Statements and Second Quarter 2010 Financial Supplement located on the Company's Investor Relations website at www.libertymutual.com/investors. The Company's discussions related to net income are presented in conformity with U.S. generally accepted accounting principles ("GAAP") on an after-tax basis. All other discussions are presented on a pre-tax GAAP basis, unless otherwise noted.

Index

	Page
Cautionary Statement Regarding Forward Looking Statements	3
Executive Summary	4
Consolidated Results of Operations	6
Review of Financial Results by Business Unit	
Agency Markets	14
International	18
Personal Markets	22
Commercial Markets	25
Corporate and Other	29
Investments	32
Liquidity and Capital Resources	40
Critical Accounting Policies	44
About the Company	51

Cautionary Statement Regarding Forward Looking Statements

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

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

EXECUTIVE SUMMARY

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

Three Months Ended June 30, 2010 - Consolidated Results of Operations

- Revenues for the three months ended June 30, 2010 were $8.066 billion, an increase of $236 million or 3.0% over the same period in 2009.
- Net written premium for the three months ended June 30, 2010 was $7.283 billion, an increase of $379 million or 5.5 % over the same period in 2009.
- Pre-tax operating income before private equity income for the three months ended June 30, 2010 was $183 million, a decrease of $235 million or 56.2% from the same period in 2009.
- Pre-tax operating income for the three months ended June 30, 2010 was $188 million, a decrease of $210 million or 52.8% from the same period in 2009.
- Net income for the three months ended June 30, 2010 was $220 million, a decrease of $48 million or 17.9% from the same period in 2009.
- Cash flow from operations for the three months ended June 30, 2010 was $586 million, a decrease of $17 million or 2.8% from the same period in 2009.
- The combined ratio before catastrophes[1] and net incurred losses attributable to prior years[2] for the three months ended June 30, 2010 was 96.6%, a decrease of 2.3 points from the same period in 2009. 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, 2010 increased 4.4 points to 104.7%.

Six Months Ended June 30, 2010 - Consolidated Results of Operations

- Revenues for the six months ended June 30, 2010 were $16.256 billion, an increase of $1.020 billion or 6.7% over the same period in 2009.
- Net written premium for the six months ended June 30, 2010 was $14.492 billion, an increase of $560 million or 4.0% over the same period in 2009.
- Pre-tax operating income before private equity income for the six months ended June 30, 2010 was $487 million, a decrease of $326 million or 40.1% from the same period in 2009.
- Pre-tax operating income for the six months ended June 30, 2010 was $576 million, an increase of $156 million or 37.1% over the same period in 2009.

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[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, 2010 was $535 million, an increase of $245 million or 84.5% over the same period in 2009.

- Cash flow from operations for the six months ended June 30, 2010 was $1.045 billion, an increase of $57 million or 5.8% over the same period in 2009.

- The combined ratio before catastrophes and net incurred losses attributable to prior years for the six months ended June 30, 2010 was 97.2%, a decrease of 1.0 point from the same period in 2009. 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, 2010 increased 3.6 points to 103.5%.

Financial Condition as of June 30, 2010

- Total assets were $110.698 billion as of June 30, 2010, an increase of $1.223 billion over December 31, 2009.

- Policyholders' equity was $15.257 billion as of June 30, 2010, an increase of $743 million over December 31, 2009.

- Total debt was $5.636 billion as of June 30, 2010, a decrease of $304 million from December 31, 2009.

Other 2010 2nd Quarter Highlights

- On May 10, 2010, the Company's subsidiary, Liberty Mutual Agency Corporation ("LMAC"), filed a Registration Statement on Form S-1 with the Securities and Exchange Commission (the "SEC") with the intent to form a public company comprising substantially all of its Agency Markets Strategic Business Unit and to sell up to 20% of its interest in LMAC through an initial public offering. Liberty Mutual Group intends to maintain a significant interest in LMAC going forward. The registration requires the review of the SEC, which the Company expects to be completed in the third quarter of 2010. The financial information presented herein for the Liberty Mutual Group Agency Markets reporting unit differs from LMAC due to differences in the treatment of investment income, reinsurance, goodwill, and certain other expenses and formation transactions and as such is not directly comparable to the financial information set forth in the filing for LMAC.

Subsequent Events

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

CONSOLIDATED RESULTS OF OPERATIONS

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

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

Effective January 1, 2010, the Company's Venezuelan operations began applying hyper-inflationary accounting, utilizing the U.S. dollar as the functional currency, which had no impact on consolidated policyholders' equity at January 1, 2010. However, on January 8, 2010, the Venezuelan government devalued its currency, announcing that the fixed official exchange rate would be changed to a dual exchange rate system. This dual exchange rate system for the fixed official exchange rate includes a 2.60 Bolivar Fuertes (BsF) rate to 1 U.S. dollar for food and other items as mandated by the Venezuelan government, and a 4.30 BsF to 1 U.S. dollar rate for all other items. The impact of the devaluation accounting on pre-tax operating income in the quarter and year-to-date ended June 30, 2010 was an increase of $89 million and $103 million, respectively.

Additionally, while the devaluation has, in U.S. dollars, reduced net written premium and loss and loss adjustment expense reserves in 2010 compared to the prior period, the impact on consolidated equity is not expected to be material.

On May 10, 2010, the Company's subsidiary, LMAC, filed a Registration Statement on Form S-1 with the SEC with the intent to form a public company comprising substantially all of the Agency Markets Strategic Business Unit and to sell up to 20% of its interest in LMAC through an initial public offering. Liberty Mutual Group intends to maintain a significant interest in LMAC going forward. The registration requires the review of the SEC, which the Company expects to be completed in the third quarter of 2010. The financial information presented herein for the Liberty Mutual Group Agency Markets reporting unit differs from LMAC due to differences in the treatment of investment income, reinsurance, goodwill, and certain other expenses and formation transactions and as such is not directly comparable to the financial information set forth in the filing for LMAC.

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	**2010**	**2009**	**Change**	**2010**	**2009**	**Change**
Private passenger automobile	$2,537	$2,454	3.4%	$4,936	$4,763	3.6%
Workers compensation	897	882	1.7	1,961	2,086	(6.0)
Homeowners	763	549	39.0	1,381	982	40.6
Commercial multiple peril / fire	606	608	(0.3)	1,194	1,201	(0.6)
International local businesses	402	418	(3.8)	851	897	(5.1)
Commercial automobile	404	398	1.5	797	784	1.7
LIU[1] reinsurance	257	208	23.6	653	590	10.7
General liability	301	296	1.7	597	606	(1.5)
Surety	189	177	6.8	363	337	7.7
Group disability and life	171	151	13.2	342	298	14.8
LIU inland marine program	168	163	3.1	325	326	(0.3)
LIU third party	162	192	(15.6)	323	314	2.9
LIU first party	100	87	14.9	160	148	8.1
Individual life	66	75	(12.0)	140	136	2.9
Assumed voluntary reinsurance	51	39	30.8	93	82	13.4
Other[2]	209	207	1.0	376	382	(1.6)
Total NWP[3]	$7,283	$6,904	5.5%	$14,492	$13,932	4.0%

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

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

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2010**	**2009**	**Change**	**2010**	**2009**	**Change**
Agency Markets[1]	$2,667	$2,662	0.2%	$5,180	$5,190	(0.2%)
International	1,742	1,702	2.4	3,489	3,394	2.8
Personal Markets	1,739	1,620	7.3	3,311	3,043	8.8
Commercial Markets[1]	1,270	1,218	4.3	2,748	2,821	(2.6)
Corporate and Other[2]	(135)	(298)	(54.7)	(236)	(516)	(54.3)
Total net written premium (NWP)	$7,283	$6,904	5.5%	$14,492	$13,932	4.0%
Foreign exchange effect on growth, excluding Venezuelan devaluation			0.5			1.1
Venezuelan devaluation			(3.3)			(3.2)
Total foreign exchange effect on growth			(2.8)			(2.1)
NWP growth excluding foreign exchange and Venezuelan devaluation			8.3%			6.1%

1 Effective January 1, 2010, net written premium associated with Summit, previously included in Agency Markets, is included in Commercial Markets. The prior periods have been restated to reflect this change.
2 Includes internal and external reinsurance including homeowners quota share reinsurance treaties entered into in the fourth quarter of 2009 and 2008, respectively.

Major drivers of net written premium growth were as follows:

	Three Months Ended June 30,				Six Months Ended June 30,			
$ in Millions	**2010**	**2009**	**$ Change**	**Points Attribution**	**2010**	**2009**	**$ Change**	**Points Attribution**
LMG NWP	$7,283	$6,904	379	5.5	14,492	13,932	560	4.0
Components of Growth:								
-Domestic homeowners	928	830	98	1.4	1,680	1,486	194	1.4
-Homeowners quota share	(165)	(281)	116	1.7	(299)	(504)	205	1.5
Total Homeowners	763	549	214	3.1	1,381	982	399	2.9
International local businesses (excluding foreign exchange)	1,262	1,067	195	2.8	2,433	2,106	327	2.3
Domestic personal auto	1,872	1,805	67	1.0	3,680	3,554	126	0.9
Group disability and life	171	151	20	0.3	342	298	44	0.3
Surety	189	177	12	0.2	363	337	26	0.2
Individual life	66	75	(9)	(0.1)	140	136	4	-
Foreign exchange and Venezuelan devaluation	(192)	-	(192)	(2.8)	(293)	-	(293)	(2.1)
Other commercial lines	3,152	3,080	72	1.0	6,446	6,519	(73)	(0.5)
Total LMG NWP	$7,283	$6,904	379	5.5	$14,492	$13,932	560	4.0

Consolidated net written premium by U.S. or foreign distribution channels were as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2010**	**2009**	**Change**	**2010**	**2009**	**Change**
U.S.	$5,821	$5,482	6.2%	$11,541	$11,063	4.3%
International[1]	1,462	1,422	2.8	2,951	2,869	2.9
Total NWP	$7,283	$6,904	5.5%	$14,492	$13,932	4.0%

1 Excludes domestically written business in the International SBU.

Net written premium for the three and six months ended June 30, 2010 was $7.283 billion and $14.492 billion, increases of $379 million and $560 million over the same periods in 2009. Significant changes by major line of business include:

- Private passenger automobile net written premium increased $83 million and $173 million in the quarter and year-to-date, respectively. The increases in both periods primarily reflect strong retention, new business policy growth, and rate increases in Personal Markets, as well as organic growth in International's local businesses in Latin America mainly due to inflation in Venezuela. The increases were partially offset by a decline in Europe as a result of Spain's continuing economic contraction and the net impact of foreign exchange, approximately $91 million and $128 in the quarter and year-to-date, respectively, and lower premiums in Agency Markets, net of the impact of an annual auto product.
- Workers compensation net written premium increased $15 million and decreased $125 million in the quarter and year-to-date, respectively. The increase in the quarter primarily reflects premium adjustments on retrospectively rated policies in Commercial Markets, partially offset by a decrease in exposures and audit premium due to weak economic conditions and state mandated rate decreases in Florida. The year-to-date decrease primarily reflects the previously mentioned decrease in exposures and audit premium.

- Homeowners net written premium increased $214 million and $399 million in the quarter and year-to-date, respectively. The increases in both periods were primarily driven by the non-renewal of a portion of the homeowners quota share reinsurance treaty of $116 million and $205 million in the quarter and year-to-date, respectively, as well as higher premiums in Personal Markets due to strong retention, new business policy growth, and rate increases and in Agency Markets due to new business policy growth and rate increases.
- International local businesses net written premium (excluding private passenger automobile), decreased $16 million and $46 million in the quarter and year-to-date, respectively. The decreases were driven by the Venezuelan devaluation of approximately $114 million and $238 million in the quarter and year-to-date, respectively, a decline in Europe due to Spain's continued economic contraction, and the net impact of foreign exchange, approximately $11 million and $42 million in the quarter and year-to-date, respectively. The decreases were partially offset by premium growth in Venezuela, primarily due to inflation, and Brazil.
- LIU reinsurance net written premium increased $49 million and $63 million in the quarter and year-to-date, respectively. The increases primarily reflect growth in worldwide reinsurance lines.
- Surety net written premium increased $12 million and $26 million in the quarter and year-to-date, respectively. The increase is primarily from existing contract customers.
- Group disability and life net written premium increased $20 million and $44 million in the quarter and year-to-date, respectively. The increase reflects broader penetration of those markets.
- LIU third party net written premium decreased $30 million and increased $9 million in the quarter and year-to-date, respectively. The decrease in the quarter was attributable to an increase in ceded premium primarily due to a change in structure of a reinsurance program. The year-to-date increase primarily reflects growth in the casualty lines.
- LIU first party net written premium increased $13 million and $12 million in the quarter and year-to-date respectively. The increases were primarily driven by new business in the energy and engineering lines in Asia, Europe and the U.S.
- Assumed voluntary reinsurance net written premium increased $12 million and $11 million in the quarter and year-to-date respectively. The increases in both periods are principally due to growth in new business in Liberty Mutual Reinsurance.

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	**2010[1]**	**2009[2]**	**Change**	**2010[1]**	**2009[2]**	**Change**
Revenues	$8,066	$7,830	3.0%	$16,256	$15,236	6.7%
PTOI before catastrophes, net incurred losses attributable to prior years and private equity income	727	513	41.7%	1,329	1,051	26.5%
Catastrophes[3,4]	(497)	(253)	96.4%	(908)	(579)	56.8%
Net incurred losses attributable to prior years:						
- Asbestos & environmental[5]	-	(2)	(100.0%)	(3)	(3)	-
- All other[6]	(47)	160	NM	69	344	(79.9%)
Pre-tax operating income before private equity income	183	418	(56.2%)	487	813	(40.1%)
Private equity income (loss) [7]	5	(20)	NM	89	(393)	NM
Pre-tax operating income	188	398	(52.8%)	576	420	37.1%
Realized gains (losses), net	111	(27)	NM	206	(21)	NM
Income tax expense	(79)	(103)	(23.3%)	(247)	(109)	126.6%
Net income	$220	$268	(17.9%)	$535	$290	84.5%
Cash flow from operations	$586	$603	(2.8%)	$1,045	$988	5.8%

1 Effective January 1, 2010, the Venezuelan operations of the Company's International SBU began applying hyper-inflationary accounting, utilizing the U.S. dollar as the functional currency.
2 2009 results have been restated for the retrospective accounting change related to the change in the discount rate applied to the long-term indemnity portion of the settled unpaid workers compensation claims.
3 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.
4 Catastrophe losses ceded under the homeowners quota share treaty are included to the extent that the ceded combined ratio exceeds 100.0%.
5 Net of allowance for uncollectible reinsurance increase of $2 million for the three and six months ended June 30, 2010, and zero for the comparable periods of 2009.
6 Net of earned premium attributable to prior years of ($106) million and ($94) million for the three and six months ended June 30, 2010 and $1 million and $2 million for the comparable periods of 2009. Net of amortization of deferred gains on retroactive reinsurance of $17 million and $35 million for the three and six months ended June 30, 2010 and 2009.
7 Private equity income (loss) 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, 2010 was $188 million and $576 million, respectively, a decrease of $210 million and an increase of $156 million versus the same periods in 2009. The decrease in the quarter primarily reflects increases in catastrophe related losses and unfavorable net incurred losses attributable to prior years compared to favorable development in 2009, partially offset by the impact of the Venezuelan devaluation of approximately $89 million in the quarter. The year-to-date increase reflects an increase in private equity income of $482 million as a result of improved market valuations over the same period in 2009 and the impact of the Venezuelan devaluation accounting of approximately $103 million. The increase was partially offset by increases in catastrophe losses primarily due to higher catastrophe losses in Personal Markets, internally assumed losses in Corporate and Other related to the Chilean earthquake, Northwest and Midwest events in Agency Markets, and less favorable net incurred losses attributable to prior years primarily related to unfavorable development in Agency Markets run-off business.

Revenues for the three and six months ended June 30, 2010 were $8.066 billion and $16.256 billion, respectively, increases of $236 million and $1.020 billion over the same periods in 2009. The major

components of revenues are net premium earned, net investment income, net realized investment gains, and fee and other revenues.

Net premium earned for the three and six months ended June 30, 2010 was $7.025 billion and $14.124 billion, respectively, increases of $66 million and $283 million over the same periods in 2009. The increases in both periods reflect decreased ceded premium of approximately $104 million and $200 million in the quarter and year-to-date, respectively, due to the non-renewal of a portion of the homeowners quota share treaty as of December 31, 2009, and earned premium associated with the other changes in net written premium previously discussed. The increases in both periods were partially offset by foreign exchange decline driven by the Venezuelan devaluation and the weakening of the Euro versus the U.S. dollar, partially offset by the weakening of the U.S. dollar versus other foreign currencies. Also partially offsetting the increases in both periods were a decrease in Commercial Markets in the estimate of prior year earned premium on loss sensitive business recorded in the three months ended June 30, 2010.

Net investment income for the three and six months ended June 30, 2010 was $737 million and $1.547 billion, respectively, increases of $40 million and $513 million over the same periods in 2009. The increases in both periods reflect increases in limited partnerships' and limited liability companies' income of $25 million and $482 million, respectively, as a result of improved market valuations over the same periods in 2009 and continued investment of cash flows from operations, partially offset by lower investment yields and higher investment expenses attributable to variable incentive compensation and strategic initiatives.

Net realized investment gains for the three and six months ended June 30, 2010 were $111 million and $206 million, respectively, increases of $138 million and $227 million over the same periods in 2009. The increases primarily reflect a decrease in impairment losses recorded in 2010 due to the improving market conditions. Fixed maturity gains for the three and six months ended June 30, 2010 reflect gains recognized from the sale of securities related to portfolio re-alignment compared to equity gains recognized for the three and six months ended June 30, 2009 related to the Company's decision to reduce its equity exposure. Other realized gains for six months ended June 30, 2009 that did not recur in 2010 include $25 million related to equity swap derivative contracts that terminated in January 2009.

Fee and other revenues for the three and six months ended June 30, 2010 were $193 million and $379 million, respectively, decreases of $8 million and $3 million from the same periods in 2009. The decreases in both periods are driven by lower commission revenue 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. Partially offsetting the year-to-date decrease is an increase driven by higher oil and gas revenues due to increases in price and production from the Company's energy operations.

Claims, benefits and expenses for the three and six months ended June 30, 2010 were $7.767 billion and $15.474 billion, respectively, increases of $308 million and $637 million over the same periods in 2009. The increases in both periods reflect higher losses and expenses associated with catastrophes, a decrease in ceded losses and expenses associated with the homeowners quota share reinsurance treaty, business growth in Personal Markets and International's Latin American operations, and the net impact of prior year incurred, which was unfavorable in the quarter and less favorable for the year-to-date versus the same periods in 2009. Also contributing to the year-to-date increase was a foreign exchange loss, primarily the result of the Venezuelan devaluation. Partially offsetting the increases in both periods was a decline in Commercial Markets non-catastrophe losses due to a decline in premium volumes.

Income tax expense for the three and six months ended June 30, 2010 was $79 million and $247 million, respectively, a decrease of $24 million and an increase of $138 million versus the same periods in 2009. The Company's effective tax rate for the three and six months ended June 30, 2010 was 26% and 32%, compared to 28% and 27% for the same periods in 2009. The increase in the year-to-date effective tax rate from 2009 to 2010 was due to a $55 million one-time charge related to the recently enacted federal health care legislation which eliminated the tax benefit associated with Medicare Part D subsidies. The Company's effective tax rate differs from the Federal statutory rate of 35% principally due to tax-exempt

investment income, foreign taxes and the elimination of the tax benefit associated with Medicare Part D subsidies.

Net income for the three and six months ended June 30, 2010 was $220 million and $535 million, respectively, a decrease of $48 million and an increase of $245 million versus the same periods in 2009.

Cash flow from operations for the three and six months ended June 30, 2010 was $586 million and $1.045 billion, respectively, a decrease of $17 million and an increase of $57 million versus the same periods in 2009. The decrease in the quarter reflects lower premium collections in Commercial Markets and also in International due to the Venezuelan devaluation, partially offset by lower catastrophe paid losses. The year-to-date increase reflects a decrease in ceded premium payments associated with the homeowners quota share treaty, lower catastrophe paid losses partially offset by a large loss payment related to an asbestos claim recorded in the prior year, and lower premium collections in Commercial Markets, Agency Markets and also in International due to the Venezuelan devaluation.

	Three Months Ended June 30,			**Six Months Ended June 30,**		
CONSOLIDATED	**2010[1]**	**2009**	Change **(Points)**	**2010[1]**	**2009**	Change **(Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	68.0%	70.0%	(2.0)	68.7%	69.6%	(0.9)
Underwriting expense ratio	28.4	28.7	(0.3)	28.3	28.4	(0.1)
Dividend ratio	0.2	0.2	-	0.2	0.2	-
Subtotal	96.6	98.9	(2.3)	97.2	98.2	(1.0)
Catastrophes[2]	7.4	3.8	3.6	6.8	4.3	2.5
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	-	-	-	-	-
- All other	0.7	(2.4)	3.1	(0.5)	(2.6)	2.1
Total combined ratio[3]	104.7%	100.3%	4.4	103.5%	99.9%	3.6

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

2 Catastrophes include all current and prior year catastrophe losses including assessments from TWIA and exclude losses related to the Company's external reinsurance assumed lines (assumed voluntary reinsurance and LIU 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.

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

The consolidated combined ratio before catastrophes and net incurred losses attributable to prior years for the three and six months ended June 30, 2010 was 96.6% and 97.2%, respectively, decreases of 2.3 points and 1.0 point from the same periods in 2009. The decrease in the claims and claim adjustment expense ratio in both periods reflects favorable property results in Agency Markets partially offset by deteriorating loss trends in Commercial Markets. Also impacting the decrease in the quarter were favorable claims and claims adjustment expense ratios in select Latin American countries in International and less severe non-catastrophe property losses in Commercial Markets. The year-to-date decrease in the claims and claim adjustment expense ratio is partially offset by the impact of several large loss events including the Chilean

earthquake on the LIU reinsurance business and the Commercial Markets assumed voluntary reinsurance line of business. The decrease in the underwriting expense ratio in both periods is attributable to lower corporate expenses primarily related to employee pension benefits and lower profit share expense related to business acquired from Prudential Financial, Inc. ("PruPac") as a result of non-recurring favorable prior year catastrophe activity in 2009, partially offset by an increase in the Commercial Market commission expense due to the change in the Middle Market distribution structure. The year-to-date decrease in the underwriting expense ratio also reflects lower net commission expense resulting from a change in the structure of certain reinsurance programs within LIU's inland marine and third party businesses, the recognition of additional profit commission from certain reinsurance programs within LIU's third party business, and higher advertising and licensing costs in Agency Markets.

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, 2010 was 104.7% and 103.5%, respectively, increases of 4.4 points and 3.6 points over the same periods in 2009. The increases in both periods reflect higher catastrophe losses in Agency Markets and Personal Markets, less favorable net incurred losses attributable to prior years in Agency Markets, and unfavorable net incurred losses attributable to prior years in Corporate and Other primarily related to Agency Markets run-off business. The year-to-date increase also reflects internally assumed losses in Corporate and Other related to the Chilean earthquake. Partially offsetting the increases in both periods are the changes in the combined ratio components previously discussed.

AGENCY MARKETS

Overview – Agency Markets

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

On May 10, 2010, the Company's subsidiary, LMAC, filed a Registration Statement on Form S-1 with the SEC with the intent to form a public company comprising substantially all of the Agency Markets Strategic Business Unit and to sell up to 20% of its interest in LMAC through an initial public offering. Liberty Mutual Group intends to maintain a significant interest in LMAC going forward. The registration requires the review of the SEC, which the Company expects to be completed in the third quarter of 2010. The financial information presented herein for the Liberty Mutual Group Agency Markets reporting unit differs from LMAC due to differences in the treatment of investment income, reinsurance, goodwill, and certain other expenses and formation transactions and as such is not directly comparable to the financial information set forth in the filing for LMAC.

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

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2010[1]**	**2009[1]**	**Change**	**2010[1]**	**2009[1]**	**Change**
Personal Lines (Safeco)	$1,297	$1,260	2.9%	$2,495	$2,446	2.0%
Regional Companies Group	1,149	1,185	(3.0%)	2,257	2,328	(3.0%)
Liberty Mutual Surety	189	176	7.4%	363	336	8.0%
Other[2]	32	41	(22.0%)	65	80	(18.8%)
Total net written premium	$2,667	$2,662	0.2%	$5,180	$5,190	(0.2%)

1 Effective January 1, 2010, net written premium associated with Summit, previously included in Agency Markets, is included in Commercial Markets. The prior periods have been restated to reflect this change.
2 Includes run-off operations and internal reinsurance.

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

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2010[1]**	**2009[1]**	**Change**	**2010[1]**	**2009[1]**	**Change**
Commercial Lines						
Commercial multiple peril	$460	$481	(4.4%)	$915	$948	(3.5%)
Commercial automobile	285	299	(4.7%)	553	577	(4.2%)
Workers compensation	229	227	0.9%	452	455	(0.7%)
Surety	189	177	6.8%	363	337	7.7%
General liability	128	134	(4.5%)	250	261	(4.2%)
Other	76	76	-	144	142	1.4%
Subtotal	$1,367	$1,394	(1.9%)	$2,677	$2,720	(1.6%)
Personal Lines						
Private passenger automobile	$781	$784	(0.4%)	$1,562	$1,590	(1.8%)
Homeowners	401	375	6.9%	724	671	7.9%
Other	118	109	8.3%	217	209	3.8%
Subtotal	$1,300	$1,268	2.5%	$2,503	$2,470	1.3%
Total net written premium	$2,667	$2,662	0.2%	$5,180	$5,190	(0.2%)

1 Effective January 1, 2010, net written premium associated with Summit, previously included in Agency Markets, is included in Commercial Markets. The prior periods have been restated to reflect this change.

Net written premium for the three and six months ended June 30, 2010 was $2.667 billion and $5.180 billion, respectively, an increase of $5 million and a decrease of $10 million versus the same periods in 2009. The increase in the quarter reflects increased new business including the introduction of an annual automobile product, rate increases across most lines of business, and higher surety premium, partially offset by lower personal auto and commercial lines renewal premium due to economic conditions as well as decreased audit premiums. The decrease year-to-date reflects lower renewal premiums in commercial lines due to economic conditions and decreased audit premiums, partially offset by increased new business including the introduction of an annual automobile product, rate increases and higher surety premium.

Results of Operations – Agency Markets

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2010[1]**	**2009[1]**	**Change**	**2010[1]**	**2009[1]**	**Change**
Revenues	$2,822	$2,871	(1.7%)	$5,604	$5,747	(2.5%)
PTOI before catastrophes and net incurred losses attributable to prior years	$315	$284	10.9%	$690	$600	15.0%
Catastrophes[2]	(256)	(127)	101.6%	(398)	(333)	19.5%
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	-	-	-	-	-
- All other[3]	8	122	(93.4%)	111	272	(59.2%)
Pre-tax operating income	$67	$279	(76.0%)	$403	$539	(25.2%)

1 Effective January 1, 2010, the Summit results of operations, previously included in Agency Markets, are included in Commercial Markets. The prior periods have been restated to reflect this change.

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

3 Net of earned premium attributable to prior years.

PTOI for the three and six months ended June 30, 2010 was $67 million and $403 million, respectively, decreases of $212 million and $136 million from the same periods in 2009. The decreases in the quarter and year-to-date are primarily due to higher catastrophe losses, less favorable net incurred losses attributable to prior years and unfavorable commercial lines liability results, partially offset by favorable property results and higher investment income.

Revenues for the three and six months ended June 30, 2010 were $2.822 billion and $5.604 billion, respectively, decreases of $49 million and $143 million from the same periods in 2009. The major components of revenues are net premium earned and net investment income.

Net premiums earned for the three and six months ended June 30, 2010 were $2.577 billion and $5.117 billion, respectively, decreases of $65 million and $175 million from the same periods in 2009. The decreases are primarily associated with the changes in net premiums written during the last 12 months.

Net investment income for the three and six months ended June 30, 2010 was $219 million and $437 million, respectively, increases of $15 million and $30 million over the same periods in 2009. The quarter and year-to-date increases primarily reflect improved allocated investment yields and a higher allocated invested asset base due to continued investment of cash flows from operations.

Claims, benefits and expenses for the three and six months ended June 30, 2010 were $2.755 billion and $5.201 billion, respectively, an increase of $163 million and a decrease of $7 million versus the same periods in 2009. The increase in the quarter resulted from higher catastrophe losses related to Northwest and Midwest events, less favorable net incurred losses attributable to prior years and unfavorable commercial lines liability results, partially offset by favorable property results and lower premiums. The decrease in the year-to-date is primarily attributed to favorable property results, lower premiums and expense efficiencies from the Safeco acquisition, partially offset by less favorable net incurred losses attributable to prior years and higher catastrophe losses.

	Three Months Ended June 30,			**Six Months Ended June 30,**		
AGENCY MARKETS	**2010[1]**	**2009[1]**	**Change (Points)**	**2010[1]**	**2009[1]**	**Change (Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	63.4%	64.5%	(1.1)	62.7%	63.9%	(1.2)
Underwriting expense ratio	31.9	31.0	0.9	31.2	31.1	0.1
Dividend ratio	0.1	0.2	(0.1)	0.2	0.2	-
Subtotal	95.4	95.7	(0.3)	94.1	95.2	(1.1)
Catastrophes[2]	9.9	4.8	5.1	7.8	6.3	1.5
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	-	-	-	-	-
- All other	(0.3)	(4.6)	4.3	(2.2)	(5.2)	3.0
Total combined ratio	105.0%	95.9%	9.1	99.7%	96.3%	3.4

1 Effective January 1, 2010, the Summit results of operations, previously included in Agency Markets, are included in Commercial Markets. The prior periods have been restated to reflect this change.

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

The combined ratio before catastrophes and net incurred losses attributable to prior years for the three and six months ended June 30, 2010 was 95.4% and 94.1%, respectively, decreases of 0.3 points and 1.1 points from the same periods in 2009. The quarter and year-to-date decreases are primarily due to favorable

property results partially offset by higher underwriting expense ratios in both periods. The increase in the underwriting expense ratio in the quarter is due to higher advertising and licensing 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, 2010 was 105.0% and 99.7%, respectively, increases of 9.1 points and 3.4 points from the same periods in 2009. The quarter and year-to-date increases are primarily due to higher catastrophe losses related to Northwest and Midwest events and less favorable net incurred losses attributable to prior years.

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 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	**2010**	**2009**	**Change**	**2010**	**2009**	**Change**
International Local Businesses Total	$1,068	$1,065	0.3%	$2,079	$2,084	(0.2%)
- Latin America	683	677	0.9%	1,341	1,356	(1.1%)
- Europe	315	332	(5.1%)	600	610	(1.6%)
- Asia	70	56	25.0%	138	118	16.9%
Liberty International Underwriters	674	637	5.8%	1,410	1,310	7.6%
Total net written premium (NWP)	$1,742	$1,702	2.4%	$3,489	$3,394	2.8%
Foreign exchange effect on growth, excluding Venezuelan devaluation			1.9%			4.4%
Venezuelan devaluation			(13.1%)			(13.0%)
Total foreign exchange effect on growth			(11.2%)			(8.6%)
NWP growth excluding foreign exchange and Venezuelan devaluation			13.6%			11.4%

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	**2010**	**2009**	**Change**	**2010**	**2009**	**Change**
Local businesses – private passenger auto	$665	$649	2.5%	$1,252	$1,205	3.9%
Local businesses – all other[1]	403	416	(3.1%)	827	879	(5.9%)
LIU reinsurance	256	207	23.7%	609	542	12.4%
LIU inland marine program	168	163	3.1%	325	326	(0.3%)
LIU third party	158	187	(15.5%)	319	297	7.4%
LIU first party	78	67	16.4%	134	123	8.9%
LIU other	14	13	7.7%	23	22	4.5%
Total net written premium	$1,742	$1,702	2.4%	$3,489	$3,394	2.8%

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, 2010 was $1.742 billion and $3.489 billion, increases of $40 million and $95 million over the same periods in 2009. The increases in both periods reflect organic growth in the local businesses, primarily in Latin America, from Venezuela primarily due to inflation, Brazil, and to a lesser extent, Asia, partially offset by a decline in Europe as a result of Spain's continuing economic contraction. The increases in both periods also reflect growth in certain lines of LIU's reinsurance business, partially offset by an increase in the amount of ceded written premium in LIU third party primarily due to a change in the structure of a reinsurance program. Largely offsetting the increases in both periods was foreign exchange decline (approximately $192 million and $293 million in the quarter and year-to-date, respectively) driven by the Venezuelan devaluation and the weakening of the Euro versus the U.S. dollar, partially offset by the weakening of the U.S. dollar versus other foreign currencies.

Results of Operations – International

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2010[1]**	**2009**	**Change**	**2010[1]**	**2009**	**Change**
Revenues	$1,943	$1,866	4.1%	$3,910	$3,594	8.8%
PTOI before catastrophes and net incurred losses attributable to prior years	$222	$99	124.2%	$299	$227	31.7%
Catastrophes[2]	(2)	(2)	-	(20)	(6)	NM
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	-	-	-	-	-
- All other[3]	63	32	96.9%	57	30	90.0%
Pre-tax operating income	$283	$129	119.4%	$336	$251	33.9%

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

2 Catastrophes include all current and prior year catastrophe losses including assessments from TWIA and exclude losses related to the Company's external reinsurance assumed lines (assumed voluntary reinsurance and reinsurance assumed through Lloyd's Syndicate 4472) except for losses related to the 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.

3 Net of earned premium attributable to prior years of zero and ($1) million for the three and six months ended June 30, 2010 and 2009.

NM = Not Meaningful

PTOI for the three and six months ended June 30, 2010 was $283 million and $336 million, respectively, increases of $154 million and $85 million over the same periods in 2009. The increases in both periods reflect the impact of the Venezuelan devaluation (approximately $89 million and $103 million in the quarter and year-to-date, respectively) as well as favorable net incurred loss development attributable to prior years, primarily within LIU's reinsurance business.

Revenues for the three and six months ended June 30, 2010 were $1.943 billion and $3.910 billion, respectively, increases of $77 million and $316 million over the same periods in 2009. The primary components of revenues are net premium earned and net investment income.

Net premium earned for the three and six months ended June 30, 2010 was $1.756 billion and $3.532 billion, respectively, increases of $80 million and $320 million over the same periods in 2009. The increases in both periods reflect the previously mentioned growth in net written premium in 2010 and in the latter half of 2009, partially offset by foreign exchange decline (approximately $108 million and $33 million in the quarter and year-to-date, respectively) driven by the Venezuelan devaluation and the weakening of the Euro versus the U.S. dollar, partially offset by the weakening of the U.S. dollar versus other foreign currencies.

Net investment income for the three and six months ended June 30, 2010 was $139 million and $282 million, respectively, decreases of $8 million and $13 million from the same periods in 2009. The decreases were primarily due to the Venezuelan devaluation and, to a lesser extent, the impact of a decline in yield, 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, 2010 were $1.644 billion and $3.539 billion, respectively, a decrease of $86 million and an increase of $211 million versus the same periods in 2009. The decrease in the quarter was primarily the result of the Venezuelan devaluation and an increase in favorable net incurred loss development attributable to prior years within LIU's reinsurance business, partially offset by higher current year claims and claims adjustment expenses primarily driven by the organic growth in select Latin American countries. The year-to-date increase is driven by higher current year claims and claims adjustment expenses due to the Chilean earthquake and weather-related losses in Spain, as well as the organic growth in select Latin American countries, and an increase in loss activity within LIU's reinsurance business resulting from several large loss events. The year-to-date increase was partially offset by the Venezuelan devaluation and favorable net incurred loss development attributable to prior years within LIU's reinsurance business. The changes in both periods also reflect a decrease in net commission expense due to the recognition of additional profit commission from certain reinsurance programs within LIU's third party business. The foreign exchange loss, primarily the result of the Venezuelan devaluation, contributed approximately $99 million to the increase year-to-date.

INTERNATIONAL	Three Months Ended June 30, 2010[1]	2009	Change (Points)	Six Months Ended June 30, 2010[1]	2009	Change (Points)
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	70.5%	71.4%	(0.9)	72.2%	70.3%	1.9
Underwriting expense ratio	30.0	30.0	-	30.3	30.5	(0.2)
Dividend ratio	-	-	-	-	-	-
Subtotal	100.5	101.4	(0.9)	102.5	100.8	1.7
Catastrophes[2]	0.2	0.2	-	0.7	0.2	0.5
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	-	-	-	-	-
- All other	(4.0)	(2.0)	(2.0)	(1.8)	(0.9)	(0.9)
Total combined ratio	96.7%	99.6%	(2.9)	101.4%	100.1	1.3

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

2 Catastrophes include all current and prior year catastrophe losses including assessments from TWIA and exclude losses related to the Company's external reinsurance assumed lines (assumed voluntary reinsurance and reinsurance assumed through Lloyd's Syndicate 4472) except for losses related to the 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, 2010 was 100.5% and 102.5%, respectively, a decrease of 0.9 points and an increase of 1.7 points versus the same periods in 2009. The decrease in the quarter reflects favorable claims and claims adjustment expense ratios in select countries in Latin America. The year-to-date increase in the claims and claims adjustment expense ratio reflects the impact of several large loss events including the Chilean earthquake within LIU's reinsurance business, partially offset by a decrease in the underwriting expense ratio primarily due to lower net commission expense resulting from a change in the structure of certain reinsurance programs within LIU's inland marine and third party businesses, as well as the recognition of additional profit commission from certain reinsurance programs within LIU's third party business.

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, 2010 was 96.7% and 101.4%, respectively, a decrease of 2.9 points and an increase of 1.3 points versus the same periods in 2009. The changes in both periods reflect the previously mentioned changes in the combined ratio components, and an increase in the amount of favorable net incurred loss development attributable to prior years within LIU's reinsurance business. The year-to-date increase also reflects an increase in catastrophe losses associated with the Chilean earthquake on the local businesses.

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 2,000 licensed captive sales representatives, more than 500 licensed telesales counselors, third-party producers and the Internet. Personal Markets' largest source of new business is through its more than 12,500 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	**2010**	**2009**	**Change**	**2010**	**2009**	**Change**
Private passenger automobile	$1,091	$1,021	6.9%	$2,116	$1,963	7.8%
Homeowners and other	582	524	11.1%	1,055	944	11.8%
Individual life	66	75	(12.0%)	140	136	2.9%
Total net written premium	$1,739	$1,620	7.3%	$3,311	$3,043	8.8%

Net written premium for the three and six months ended June 30, 2010 was $1.739 billion and $3.311 billion, respectively, increases of $119 million and $268 million over the same periods in 2009.

Private passenger automobile net written premium for the three and six months ended June 30, 2010 was $1.091 billion and $2.116 billion, respectively, increases of $70 million and $153 million over the same periods in 2009. The increases in both periods reflect 4.3% policies in-force growth due to strong retention and new business policy growth, as well as rate increases.

Homeowners and other net written premium for the three and six months ended June 30, 2010 was $582 million and $1.055 billion, respectively, increases of $58 million and $111 million over the same periods in 2009. The increases in both periods reflect 6.8% homeowners policies in-force growth primarily due to strong retention and new business policy growth, as well as rate increases. Approximately one point of net written premium growth is attributable to the ongoing GEICO relationship, which allows GEICO to offer the Company's homeowners products to its automobile prospects and customers. These strong results were achieved while coastal management initiatives reduced the business unit's coastal exposure from the prior year.

Individual life net written premium for the three and six months ended June 30, 2010 was $66 million and $140 million, respectively, a decrease of $9 million and an increase of $4 million versus the same periods in 2009. The decrease in the quarter reflects lower structured settlements sales, while on a year-to-date basis structured settlements sales have increased.

Results of Operations – Personal Markets

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2010**	**2009**	**Change**	**2010**	**2009**	**Change**
Revenues	$1,852	$1,731	7.0%	$3,675	$3,402	8.0%
PTOI before catastrophes, net incurred losses attributable to prior years and private equity (loss) income	$296	$265	11.7%	$552	$487	13.3%
Catastrophes[1]	(203)	(93)	118.3%	(338)	(195)	73.3%
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	-	-	-	-	-
- All other	(1)	(4)	(75.0%)	6	14	(57.1%)
Pre-tax operating income	$92	$168	(45.2%)	$220	$306	(28.1%)

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

PTOI for the three and six months ended June 30, 2010 was $92 million and $220 million, respectively, decreases of $76 million and $86 million from the same periods in 2009. The decreases in both periods were primarily attributable to increased catastrophe losses, partially offset by increased revenue due to higher net premiums earned.

Revenues for the three and six months ended June 30, 2010 were $1.852 billion and $3.675 billion, respectively, increases of $121 million and $273 million over the same periods in 2009. 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, 2010 was $1.619 billion and $3.208 billion, respectively, increases of $100 million and $211 million over the same periods in 2009. The increases in both periods reflect the earned premium associated with the changes in net written premium previously discussed.

Net investment income for the three and six months ended June 30, 2010 was $196 million and $388 million, respectively, increases of $15 million and $31 million over the same periods in 2009. The increases reflect a higher invested asset base due to the continued investment of cash flow from operations.

Claims, benefits and expenses for the three and six months ended June 30, 2010 were $1.761 billion and $3.455 billion, respectively, increases of $195 million and $343 million over the same periods in 2009. The increases in both periods were primarily due to increased catastrophe losses, which resulted from increased severity of non-hurricane weather in 2010, favorable catastrophe development in 2009 that did not recur, and a 2009 subrogation recovery related to the 2007 California wildfires. Both periods also reflect increases from business growth and general cost increases.

	Three Months Ended June 30,			Six Months Ended June 30,		
PERSONAL MARKETS	2010	2009	Change (Points)	2010	2009	Change (Points)
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	62.3%	61.9%	0.4	63.5%	63.6%	(0.1)
Underwriting expense ratio	25.1	26.0	(0.9)	25.1	25.3	(0.2)
Dividend ratio	-	-	-	-	-	-
Subtotal	87.4	87.9	(0.5)	88.6	88.9	(0.3)
Catastrophes[1]:	13.0	6.5	6.5	11.0	6.9	4.1
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	-	-	-	-	-
- All other	0.1	0.3	(0.2)	(0.2)	(0.6)	0.4
Total combined ratio	100.5%	94.7%	5.8	99.4%	95.2%	4.2

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

The Personal Markets combined ratio before catastrophes and net incurred losses attributable to prior years for the three and six months ended June 30, 2010 was 87.4% and 88.6%, respectively, decreases of 0.5 points and 0.3 points from the same periods in 2009. The decrease of the underwriting expense ratio in both periods is due to a lower PruPac profit share expense as a result of the non-recurring favorable prior year catastrophe activity from 2009. Lower advertising expenditures also contribute to the lower underwriting expense ratio in the quarter, while advertising expenditures are higher on a year-to-date basis.

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, 2010 was 100.5% and 99.4%, respectively, increases of 5.8 points and 4.2 points from the same periods in 2009. The increases in both periods reflect the changes previously discussed, increased catastrophe losses in 2010, and favorable catastrophe activity in 2009 that did not recur.

COMMERCIAL MARKETS

Overview – Commercial Markets

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

On January 22, 2009, Commercial Markets established Middle Market, a new market segment that combined 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 directly distributed Business Market and Wausau Insurance policyholders in various portions to three nationally recognized brokerage firms on February 27, 2009.

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

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

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2010[1]**	**2009[1]**	**Change**	**2010[1]**	**2009[1]**	**Change**
Commercial Markets P&C[2]	$911	$860	5.9%	$1,990	$2,055	(3.2%)
Group Benefits	171	151	13.2%	342	298	14.8%
Summit[1]	115	136	(15.4%)	275	317	(13.2%)
Liberty Mutual Reinsurance	73	71	2.8%	140	150	(6.7%)
Other Markets[3]	-	-	-	1	1	-
Total net written premium	$1,270	$1,218	4.3%	$2,748	$2,821	(2.6%)

1 Effective January 1, 2010, net written premium associated with Summit, previously included in Agency Markets, is included in Commercial Markets. The prior periods have been restated to reflect this change.
2 Effective July 14, 2010 net written premium associated with Middle Market, National Market, Specialty Lines and Liberty Mutual Property were combined into Commercial Markets P&C. The prior periods have been restated to reflect this change.
3 Includes internal reinsurance.

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

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2010[1]**	**2009[1]**	**Change**	**2010[1]**	**2009[1]**	**Change**
Workers compensation	$664	$651	2.0%	$1,546	$1,664	(7.1%)
Group disability and life	171	151	13.2%	342	298	14.8%
General liability	122	115	6.1%	250	254	(1.6%)
Commercial automobile	115	99	16.2%	235	205	14.6%
Commercial multiple peril / fire	104	103	1.0%	199	210	(5.2%)
Assumed voluntary reinsurance	51	39	30.8%	93	82	13.4%
Other	43	60	(28.3%)	83	108	(23.1%)
Total net written premium	$1,270	$1,218	4.3%	$2,748	$2,821	(2.6%)

1 Effective January 1, 2010, net written premium associated with Summit, previously included in Agency Markets, is included in Commercial Markets. The prior periods have been restated to reflect this change.

Net written premium for the three and six months ended June 30, 2010 was $1.270 billion and $2.748 billion, respectively, an increase of $52 million and a decrease of $73 million versus the same periods in 2009. Workers compensation net written premium in the quarter and year-to-date was impacted by a decrease in exposures and audit premium in the Commercial Markets P&C and Summit segments due to weak economic conditions and a mandatory rate decrease in Florida, primarily impacting Summit. These decreases were more than offset in the quarter due to premium adjustments on retrospectively rated policies. Continued competitive market conditions contributed to declining rates across all property and casualty lines of business. Lower retention of commercial multiple peril/fire and other lines premium was due to competitive market conditions and catastrophe exposure reductions which drove decreases in these lines of business in the quarter and year-to-date. Partially offsetting these items were an increase in group disability and life business, due to a broader penetration of those markets, and an increase in commercial automobile due to the growth of new business. The second quarter also reflects an increase in general liability premium due to one significant account within the construction segment of Commercial Markets P&C, as well as growth in assumed voluntary reinsurance lines due to Liberty Mutual Reinsurance new business growth.

Results of Operations – Commercial Markets

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2010[1]**	**2009[1]**	**Change**	**2010[1]**	**2009[1]**	**Change**
Revenues	$1,490	$1,681	(11.4%)	$3,094	$3,443	(10.1%)
PTOI before catastrophes and net incurred losses attributable to prior years	$81	$79	2.5%	$164	$202	(18.8%)
Catastrophes[2]	(35)	(28)	25.0%	(50)	(34)	47.1%
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	-	-	-	-	-
- All other[3]	15	20	(25.0%)	24	40	(40.0%)
Pre-tax operating income	$61	$71	(14.1%)	$138	$208	(33.7 %)

1 Effective January 1, 2010, the Summit results of operations, previously included in Agency Markets, are included in Commercial Markets. The prior periods have been restated to reflect this change.

2 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.

3 Net of earned premium attributable to prior years of ($107) million and ($104) million for the three and six months ended June 30, 2010, and $1 million and $2 million for the comparable periods in 2009. Net of amortization of deferred gains on retroactive reinsurance of $12 million and $25 million for the three and six months ended June 30, 2010 and $13 million and $25 million for the comparable periods in 2009.

PTOI for the three and six months ended June 30, 2010 was $61 million and $138 million, respectively, decreases of $10 million and $70 million from the same periods in 2009. The decreases in both periods reflect a decline in earned premium that outpaced expense reductions, deteriorating loss trends, primarily in workers compensation, and increased catastrophe losses, partially offset by favorable net investment income. In addition, the decrease in the quarter was partially offset by a decrease in non-catastrophe related property losses.

Revenues for the three and six months ended June 30, 2010 were $1.490 billion and $3.094 billion, respectively, decreases of $191 million and $349 million from the same periods in 2009. 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, 2010 was $1.194 billion and $2.501 billion, respectively, decreases of $186 million and $336 million from the same periods in 2009. The decrease in earned premium reflects the decrease in net written premium during 2009 and the two quarters of 2010 as well as a decrease in the estimate of prior year earned premium on loss sensitive business recorded in the three months ended June 30, 2010.

Net investment income for the three and six months ended June 30, 2010 was $230 million and $460 million, respectively, increases of $4 million and $8 million over the same periods in 2009. The increase primarily reflects a higher invested asset base due to the continued investment of cash flow from operations.

Fee and other revenues for the three and six months ended June 30, 2010 were $67 million and $134 million, respectively, decreases of $8 million and $20 million from the same periods in 2009. The decrease primarily reflects lower commission revenues from the Company's servicing carrier operations due to lower involuntary market premium volume. As a servicing carrier, the Company receives fee income for performing certain underwriting, claims and administrative services for all participating involuntary pool members. Also contributing to the decrease was lower fee revenue from Helmsman Insurance Agency as a result of the Middle Market re-organization.

Claims, benefits, and expenses for the three and six months ended June 30, 2010 were $1.430 billion and $2.957 billion, respectively, decreases of $180 million and $278 million from the same periods in 2009. The decreases in both periods primarily reflect a decline in non-catastrophe losses due to a decline in premium volumes, a decrease of compensation related expenses primarily as a result of the change in the Middle Market distribution structure, and a reduction of prior accident year incurred losses. In addition, a decline in exposures and net written premium resulted in decreases in premium tax and claim adjustment expenses. Partially offsetting these decreases were increases in commission expense due to the change in the Middle Market distribution structure and catastrophe property losses.

	Three Months Ended June 30,			Six Months Ended June 30,		
COMMERCIAL MARKETS	**2010**[1]	**2009**[1]	**Change (Points)**	**2010**[1]	**2009**[1]	**Change (Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	84.4%	85.1%	(0.7)	84.4%	84.2%	0.2
Underwriting expense ratio	24.3	22.3	2.0	24.2	21.6	2.6
Dividend ratio	0.7	0.9	(0.2)	0.7	0.9	(0.2)
Subtotal	109.4	108.3	1.1	109.3	106.7	2.6
Catastrophes[2]	3.2	2.3	0.9	2.2	1.3	0.9
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	-	-	-	-	-
- All other	(0.2)	(1.6)	1.4	(0.5)	(1.6)	1.1
Total combined ratio	112.4%	109.0%	3.4	111.0%	106.4%	4.6

1 Effective January 1, 2010, results associated with Summit, previously included in Agency Markets, are included in Commercial Markets. The prior periods have been restated to reflect this change.

2 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, 2010 was 109.4% and 109.3%, respectively, increases of 1.1 points and 2.6 points over the same periods in 2009. Both periods reflect the impact of deteriorating loss trends, primarily in workers compensation. In addition, the second quarter reflects less severe non-catastrophe property losses and an increase in the Summit workers compensation claims and claim adjustment expense ratio in 2009. On a year-to-date basis, the claims and claim adjustment expense ratio reflects an increase in assumed voluntary reinsurance losses due to the Chilean earthquake and the European winter storm Xynthia. The increase in the underwriting expense ratio in both periods primarily reflects an increase in the commission ratio due to the change in the Middle Market distribution structure, partially offset by a decrease in loss based assessments.

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, 2010 was 112.4% and 111.0%, respectively, increases of 3.4 points and 4.6 points over the same periods in 2009. The increases in both periods reflect the changes in the combined ratio previously discussed as well as higher catastrophe losses and less favorable net incurred losses attributable to prior years driven by favorable development in 2009 related to the involuntary market workers compensation pools and Summit workers compensation that did not recur.

CORPORATE AND OTHER

Overview – Corporate and Other

Corporate and Other includes the following significant items:

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

- Interest expense on the Company's outstanding long–term debt.

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

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

- The Company discounts the long-term indemnity portion of its settled unpaid workers compensation claims. In the fourth quarter of 2009, the Company changed its method of accounting for discounting from tabular discount rates based on insurance regulations as approved by the respective jurisdictions to a risk-free discount rate. Commercial Markets reports their discount based on a tabular rate of 4%. Corporate and Other results reflect the difference between the tabular and risk-free rate.

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

- For presentation in this MD&A, 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	**2010**	**2009**	**Change**	**2010**	**2009**	**Change**
Reinsurance, net	($141)	($295)	(52.2%)	($198)	($468)	(57.7%)
Workers compensation[1]	(1)	(5)	(80.0%)	(47)	(50)	(6.0%)
Other	7	2	NM	9	2	NM
Total net written premium	($135)	($298)	(54.7%)	($236)	($516)	(54.3%)

[1] Booked as billed adjustment
NM = Not Meaningful

Net written premium for the three and six months ended June 30, 2010 was ($135) million and ($236) million, respectively, increases of $163 million and $280 million over the same periods in 2009. The increases in both periods were primarily due to a decrease in externally ceded reinsurance. In the fourth quarter of 2008, the Company entered into a reinsurance contract where the Company ceded a pro rata portion of consolidated U.S. direct written homeowners premium. In the fourth quarter of 2009, the Company did not renew a portion of the homeowners quota share reinsurance treaty, resulting in a decrease in ceded premium from the same periods in 2009. The impact of the change in this contract on net written premium was a reduction in ceded premium of $116 million and $205 million in the quarter and year-to-date, respectively. Also impacting the increases in both periods were a reduction in ceded premium related to external reinsurance partially offset by a decrease in assumed premium related to internal reinsurance.

Results of Operations – Corporate and Other

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2010**	**2009[1]**	**Change**	**2010**	**2009[1]**	**Change**
Revenues	($41)	($319)	(87.1%)	($27)	($950)	(97.2%)
Pre-tax operating loss before catastrophes, net incurred losses attributable to prior years and private equity income (loss):	($187)	($214)	(12.6%)	($376)	($465)	(19.1%)
Catastrophes[2,3]	(1)	(3)	(66.7%)	(102)	(11)	NM
Net incurred losses attributable to prior years:						
- Asbestos & environmental[4]	-	(2)	(100.0%)	(3)	(3)	-
- All other[5]	(132)	(10)	NM	(129)	(12)	NM
Pre-tax operating loss before private equity income (loss)	(320)	(229)	39.7%	(610)	(491)	24.2%
Private equity income (loss) [6]	5	(20)	NM	89	(393)	NM
Pre-tax operating loss	($315)	($249)	26.5%	($521)	($884)	(41.1%)

1 2009 results have been restated for the retrospective accounting change related to the change in the discount rate applied to the long-term indemnity portion of the settled unpaid workers compensation claims.
2 Catastrophes include all current and prior year catastrophe losses including assessments from TWIA and exclude losses related to the Company's external reinsurance assumed lines (assumed voluntary reinsurance and reinsurance assumed through Lloyd's Syndicate 4472). Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums of ($1) and $6 million for the three and six months ended June 30, 2010 and zero and $2 million for the comparable periods of 2009.
3 Catastrophe losses ceded under the homeowners quota share treaty are included to the extent that the ceded combined ratio exceeds 100.0%.
4 Net of allowance for uncollectible reinsurance increase of $2 million for the three and six months ended June 30, 2010, and zero for the comparable periods of 2009.
5 Net of amortization of deferred gains on retroactive reinsurance of $5 million and $10 million for the three and six months ended June 30, 2010 and 2009, respectively.
6 Private equity income (loss) 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, 2010 was $315 million and $521 million, respectively, an increase of $66 million and a decrease of $363 million versus the same periods in 2009. The increase in the quarter was primarily driven by unfavorable prior year development related to Agency Markets run-off business and unfavorable variable annuity reserve development, partially offset by the restructuring of internal and external treaties in the Company's reinsurance program, an increase in limited partnerships' and limited liability companies' income as a result of improved market valuations over the same periods in 2009 and lower other corporate expenses primarily related to employee pension benefits. The year-to-date decrease was driven by the previously mentioned increase in limited partnerships' and limited liability companies' income, the restructuring of internal and external treaties in the Company's reinsurance program, and higher oil and gas revenues, partially offset by unfavorable prior year development related to Agency Markets run-off business, internally assumed losses on the Company's reinsurance program related to the Chilean earthquake, and unfavorable variable annuity reserve development.

Revenues for the three and six months ended June 30, 2010 were ($41) million and ($27) million, respectively, increases of $278 million and $923 million over the same periods in 2009. The major components of revenues include net premium earned, net investment income, and fee and other revenues.

Net premium earned for the three and six months ended June 30, 2010 was ($121) million and ($234) million, respectively, increases of $137 million and $263 million over the same periods in 2009. The increases in the quarter and year-to-date were primarily driven by less ceded premium related to the homeowners quota share treaty and the restructuring of other treaties in the Company's reinsurance program.

Net investment losses for the three and six months ended June 30, 2010 were $47 million and $20 million, respectively, decreases of $14 million and $457 million from the same periods in 2009. The decreases reflect the increase in limited partnerships' and limited liability companies' income as a result of improved market valuations over the same periods in 2009 and continued investment of cash flows from operations, partially offset by lower investment yields and higher investment expenses attributable to variable incentive compensation and strategic initiatives.

Fee and other revenues for the three and six months ended June 30, 2010 were $30 million and $55 million, respectively, a decrease of $1 million and an increase of $11 million versus the same periods in 2009. The year-to-date increase primarily reflects higher oil and gas revenues due to higher prices and increased production.

Claims, benefits and expenses for the three and six months ended June 30, 2010 were $177 million and $322 million, respectively increases of $216 million and $368 million over the same periods in 2009. The increases in both periods primarily reflected a decrease in ceded losses and expenses associated with the homeowners quota share treaty, unfavorable prior year development related to Agency Markets run-off business and unfavorable variable annuity reserve development. The increase in the quarter was partially offset by lower other corporate expenses primarily related to employee pension benefits. The increase year-to-date was also driven by internally assumed catastrophe losses related to the Chilean earthquake and partially offset by previously mentioned lower other corporate expenses and lower interest expense as a result of the extinguishment of debt in 2009 and maturities of debt in 2010.

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, 2010 and December 31, 2009:

$ in Millions	As of June 30, 2010		As of December 31, 2009	
Invested Assets by Type	**Carrying Value**	**% of Total**	**Carrying Value**	**% of Total**
Fixed maturities, available for sale, at fair value	$56,587	84.2%	$56,439	84.5%
Equity securities, available for sale, at fair value	1,117	1.7	1,188	1.7
Limited partnerships and limited liability companies	2,617	3.9	2,455	3.7
Commercial mortgage loans	1,140	1.7	1,121	1.7
Short-term investments	425	0.6	575	0.9
Other investments	158	0.3	164	0.2
Cash and cash equivalents	5,126	7.6	4,847	7.3
Total Invested Assets	$67,170	100%	$66,789	100.0%

Total invested assets as of June 30, 2010 were $67.170 billion, an increase of $381 million or 0.6% over December 31, 2009. The increase reflects an increase to unrealized gains due to a decrease in interest rates and credit spreads, an increase in the valuations of private limited partnerships, and an increase in cash and cash equivalents as discussed below. Partially offsetting these increases were decreases attributable to a valuation decline from foreign exchange largely driven by the Venezuelan devaluation.

Fixed maturities as of June 30, 2010 were $56.587 billion, an increase of $148 million or 0.3% over December 31, 2009. The increase reflects market value increases due to a decrease in interest rates and credit spreads partially offset by valuation declines from foreign exchange as previously discussed.

Equity securities available for sale as of June 30, 2010 were $1.117 billion ($653 million common stock and $464 million preferred stock) versus $1.188 billion as of December 31, 2009 ($688 million common stock and $500 million preferred stock), a decrease of $71 million or 6.0% from December 31, 2009. Of

the $653 million of common stock at June 30, 2010, $243 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 general market decline.

Investments in limited partnerships and limited liability companies as of June 30, 2010 were $2.617 billion, an increase of $162 million or 6.6% over December 31, 2009. These investments consist of traditional private equity partnerships of $1.627 billion, other partnerships (primarily energy) of $641 million, and real estate partnerships of $349 million. The increase primarily reflects an increase in market value and new investments. The Company's investments in limited partnerships and limited liability companies are long-term in nature and highly illiquid. The Company believes these investments offer the potential for superior long-term returns and are appropriate in the overall context of a diversified portfolio.

Commercial mortgage loans as of June 30, 2010 were $1.140 billion (net of $10 million of loan loss reserves or 0.9% of the outstanding loan portfolio), an increase of $19 million or 1.7% over December 31, 2009. The increase primarily reflects $43 million of new loans, $20 million in principal repayments and an increase of $4 million to the loan loss reserves. The entire commercial loan portfolio is U.S. based. As of June 30, 2010, the average total loan size was $1.4 million and the average loan participation size was $.4 million. The number of loans in the portfolio increased from 2,469 at December 31, 2009 to 2,646 at June 30, 2010. Approximately 91% of the loans are full or partial recourse to borrowers.

Short-term investments as of June 30, 2010 were $425 million, a decrease of $150 million or 26.1% from December 31, 2009. This decrease reflects a decline in short-term assets held as collateral in connection with the Company's security lending program and the maturity of assets re-invested in cash equivalents and fixed maturity assets.

Cash and cash equivalents as of June 30, 2010 were $5.126 billion, an increase of $279 million or 5.8% over December 31, 2009. This increase reflects an increased focus on liquidity.

Regarding fair value measurements, as of June 30, 2010, excluding separate accounts and other assets, the Company reflected $ 2.415 billion as level 1 (quoted prices in active markets) primarily consisting of U.S. Treasuries and common equity securities. The majority of the Company's invested assets are reported as level 2 (quoted prices from other observable inputs). As of June 30, 2010, the Company reported $54.861 billion as level 2, consisting primarily of various fixed maturity securities. Finally, the Company reported $978 million as level 3 (unobservable inputs), primarily consisting of international and privately held securities for which a market price is not readily available.

As of June 30, 2010, the Company had unfunded commitments in traditional private equity partnerships, real estate, and energy and other of $1.059 billion, $537 million and $1.137 billion, respectively. As of June 30, 2010, the Company had commitments to purchase various residential mortgage-backed securities at a cost and fair value of $21 million and various municipal securities at a cost and fair value of $41 million.

As of June 30, 2010, 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 available for sale portfolio by security type as of June 30, 2010 and December 31, 2009:

June 30, 2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agency securities	$2,552	$224	($1)	$2,775
Mortgage and asset-backed securities:				
Residential	9,533	564	(69)	10,028
Commercial	2,408	96	(4)	2,500
Other mortgage and ABS securities	1,800	112	(11)	1,901
U.S. state and municipal	13,166	738	(50)	13,854
Corporate and other	20,979	1,237	(250)	21,966
Foreign government securities	3,517	122	(76)	3,563
Total fixed maturities	53,955	3,093	(461)	56,587
Common stock	521	168	(36)	653
Preferred stock	552	28	(116)	464
Total equity securities	1,073	196	(152)	1,117
Total securities available for sale	$55,028	$3,289	($613)	$57,704

December 31, 2009	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agency securities	$2,324	$147	($6)	$2,465
Mortgage and asset-backed securities:				
Residential	10,725	376	(112)	10,989
Commercial	2,163	39	(42)	2,160
Other mortgage and ABS securities	1,849	74	(21)	1,902
U.S. state and municipal	14,910	700	(100)	15,510
Corporate and other	19,134	891	(342)	19,683
Foreign government securities	3,684	128	(82)	3,730
Total fixed maturities	54,789	2,355	(705)	56,439
Common stock	525	195	(32)	688
Preferred stock	552	32	(84)	500
Total equity securities	1,077	227	(116)	1,188
Total securities available for sale	$55,866	$2,582	($821)	$57,627

The following table summarizes the Company's mortgage and asset-backed fixed maturity portfolio by credit quality as of June 30, 2010:

$ in Millions	As of June 30, 2010							
Mortgage & Asset-Backed Fixed Maturities by Credit Quality	**AAA**	**AA**	**A**	**BBB**	**BB**	**B or Lower**	**Total**	**% of Total**
SBA loans	$1,504	$-	$-	$-	$-	$-	$1,504	10.4%
GNMA residential mortgage	3,074	-	-	-	-	-	3,074	21.3
FNMA residential mortgage	2,887	-	-	-	-	-	2,887	20.0
FHLMC residential mortgage	3,362	-	-	-	-	-	3,362	23.3
Prime residential mortgage	192	33	-	-	-	235	460	3.2
Alt-A residential mortgage	65	4	-	-	-	126	195	1.4
Sub-prime residential mortgage	6	3	10	9	8	14	50	0.3
Commercial mortgage backed securities	2,314	156	16	14	-	-	2,500	17.3
Non-mortgage asset backed securities	281	26	31	35	20	4	397	2.8
Total	$13,685	$222	$57	$58	$28	$379	$14,429	100%
% of Total	94.8%	1.6%	0.4%	0.4%	0.2%	2.6%	100.0%	

Approximately 75% 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). Over 94% of the mortgage and asset-backed holdings are rated AAA. The commercial mortgage backed securities portfolio is well diversified and of high quality with over 98% rated AA or above with approximately 18% of the underlying collateral having been defeased with U.S. Treasuries.

The following table summarizes the Company's allocation of fixed maturities by credit quality as of June 30, 2010 and December 31, 2009:

$ in Millions	As of June 30, 2010		As of December 31, 2009	
Fixed Maturities by Credit Quality[1]	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
AAA	$23,596	41.7%	$24,896	44.2%
AA+, AA, AA-	9,290	16.4	10,185	18.0
A+, A, A-	10,540	18.7	10,206	18.1
BBB+, BBB, BBB-	7,726	13.7	6,599	11.7
BB+, BB, BB-	2,442	4.3	2,089	3.7
B+, B, B-	2,176	3.8	1,767	3.1
CCC or lower	817	1.4	697	1.2
Total fixed maturities	$56,587	100%	$56,439	100%

[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 to 91% at June 30, 2010 from 92% at December 31, 2009. The Company had 9% of its fixed maturity securities invested in non-investment grade securities at June 30, 2010, an increase of 1% primarily due to a shift in the Company's tactical allocation. Overall, the average credit quality rating stands at AA- as of June 30, 2010. 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, 2010 and December 31, 2009:

$ in Millions	As of June 30, 2010		As of December 31, 2009	
Fixed Maturities by Maturity Date	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
1 year or less	$2,466	4.4%	$2,556	4.5%
Over 1 year through 5 years	14,203	25.1	12,678	22.5
Over 5 years through 10 years	12,013	21.2	10,633	18.8
Over 10 years	13,476	23.8	15,521	27.5
Mortgage and asset-backed securities	14,429	25.5	15,051	26.7
Total fixed maturities	$56,587	100%	$56,439	100%

During the first half of 2010, after taking into consideration changes in investment opportunities and its view of the current and prospective business and economic environment, the Company continued to shorten 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, 2010 and 2009:

$ in Millions	Three Months Ended June 30,		Six Months Ended June 30,	
Net Investment Income	**2010**	**2009**	**2010**	**2009**
Taxable interest income	$600	$559	$1,186	$1,125
Tax-exempt interest income	139	156	292	309
Dividends	12	14	22	23
Limited partnerships and limited liability companies	5	(20)	89	(393)
Commercial mortgage loans	18	16	36	33
Other investment income	1	2	1	6
Gross investment income	775	727	1,626	1,103
Investment expenses	(38)	(30)	(79)	(69)
Net investment income	$737	$697	$1,547	$1,034

Net investment income for the three and six months ended June 30, 2010 was $737 million and $1.547 billion, respectively, an increase of $40 million and $513 million over the same periods in 2009. The increases in both periods reflect increases in limited partnerships' and limited liability companies' income of $25 million and $482 million, respectively, as a result of improved market valuations over the same periods in 2009 and continued investment of cash flows from operations, partially offset by lower investment yields and higher investment expenses attributable to variable incentive compensation and strategic initiatives.

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, 2010 and 2009:

$ in Millions Net Realized Investment Gains (Losses)	Sales & Dispositions	Impairments	Change in Derivatives Value	Total
Three Months Ended June 30, 2010:				
Fixed maturities	$116	$-	$-	$116
Common and preferred stock	2	-	-	2
Other	(7)	-	-	(7)
Total	$111	$-	$-	$111
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)

$ in Millions Net Realized Investment Gains (Losses)	Sales & Dispositions	Impairments	Change in Derivatives Value	Total
Six Months Ended June 30, 2010:				
Fixed maturities	$213	($7)	$-	$206
Common and preferred stock	10	-	-	10
Other	(2)	(8)	-	(10)
Total	$221	($15)	$-	$206
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)

$ in Millions	Three Months Ended June 30,		Six Months Ended June 30,	
Components of Net Realized Investment Gains (Losses)	2010	2009	2010	2009
Fixed maturities:				
Gross realized gains	$123	$31	$227	$55
Gross realized losses	(7)	(61)	(21)	(184)
Equities:				
Gross realized gains	4	13	12	108
Gross realized losses	(2)	(12)	(2)	(62)
Other:				
Gross realized gains	-	4	8	70
Gross realized losses	(7)	(2)	(18)	(8)
Total net realized investment gains (losses)	$111	($27)	$206	($21)

Net realized investment gains for the three and six months ended June 30, 2010 were $111 million and $206 million, respectively, increases of $138 million and $227 million over the same periods in 2009. The increases primarily reflect a decrease in impairment losses recorded in 2010 due to the improving market conditions. Fixed maturity gains for the three and six months ended June 30, 2010 reflect gains recognized from the sale of securities related to portfolio re-alignment compared to equity gains recognized for the three and six months ended June 30, 2009 related to the Company's decision to reduce its equity exposure. Other realized gains for six months ended June 30, 2009 that did not recur in 2010 include $25 million related to equity swap derivative contracts that terminated in January 2009.

Effective January 1, 2009, the Company adopted new guidance for accounting for other-than-temporary impairments, as codified in FASB Accounting Standards Codification ("ASC") 320, *Investments – Debt and Equity Securities.* See Footnote 1 to the Unaudited Financial Statements as of and for the three and six months ended June 30, 2010 for details. In the first quarter of 2009, the Company recorded a cumulative effect adjustment, net of income taxes, of $28 million. The adjustment was an increase to policyholders' unassigned equity and a corresponding decrease to accumulated other comprehensive income.

The following table summarizes the Company's unrealized losses and fair value by security type and by duration that individual securities have been in an unrealized loss position as of June 30, 2010, that are not deemed to be other-than-temporarily impaired:

$ in Millions	**Less Than 12 Months**		**12 Months and Greater**	
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	($1)	$32	$-	$-
Mortgage and asset-backed securities:				
Residential	(3)	64	(66)	445
Commercial	(1)	42	(3)	102
Other mortgage and ABS Securities	(3)	17	(8)	46
U.S. state and municipal	(4)	189	(46)	527
Corporate and other	(62)	2,373	(188)	1,686
Foreign government securities	(33)	569	(43)	234
Total fixed maturities	(107)	3,286	(354)	3,040
Common stock	(11)	84	(25)	96
Preferred stock	(3)	78	(113)	217
Total equities	(14)	162	(138)	313
Total	($121)	$3,448	($492)	$3,353

Unrealized losses decreased from $821 million as of December 31, 2009 to $613 million as of June 30, 2010 primarily due to a decrease in credit spreads. Unrealized losses less than 12 months decreased from $147 million at December 31, 2009 to $121 million as of June 30, 2010, a decrease of $26 million. Unrealized losses greater than 12 months decreased from $674 million as of December 31, 2009 to $492 million as of June 30, 2010 and accounted for $182 million of the overall decrease in unrealized losses. The Company monitors the difference between the amortized cost and estimated fair value of debt securities to ascertain whether declines in value are temporary in nature. The Company currently does not

have the intent to sell these securities and has determined it is not more likely than not that it would be required to sell these fixed income securities before they recover their fair value.

If the Company believes a decline in the value of a particular investment is temporary, the decline is recorded as an unrealized loss in policyholders' equity. If the decline is believed to be other-than-temporary, and the Company believes that it will not be able to collect all cash flows due on its fixed income securities, then the carrying value of the investment is written down to the expected cash flow amount and a realized loss is recorded as a credit impairment. A non-credit impairment loss is recognized in other comprehensive income, net of applicable taxes as the difference between expected cash flow and fair value. As a result of the Company's quarterly other-than-temporary impairment review, total impairment losses for the three and six months ended June 30, 2010 were less than $1 million and $15 million respectively, decreases of $62 million and $160 million from the same periods in 2009.

For the three and six months ended June 30, 2010, the Company recorded less than $1 million and $7 million, respectively, of fixed maturity impairment losses. The Company has concluded that the remaining gross unrealized losses of fixed maturity securities as of June 30, 2010 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, 2010 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. As of June 30, 2010, the Company has concluded that the gross unrealized losses of equity securities as of June 30, 2010 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, 2010 (including cash and cash equivalents) totaled $67.170 billion.

Short-term debt and current maturities of long-term debt outstanding as of June 30, 2010 and December 31, 2009 were as follows:

$ in Millions	**As of June 30, 2010**	**As of December 31, 2009**
Commercial paper	$-	$-
Revolving credit facilities	-	4
Current maturities of long-term debt	1	301
Total short-term debt and current maturities of long-term debt obligations	$1	$305

The decrease in short-term debt primarily reflects a decrease in current maturities of long-term debt related to the redemption of the 4.875% notes that matured in February 2010.

Long-term debt outstanding as of June 30, 2010 and December 31, 2009 was as follows:

$ in Millions	**As of June 30, 2010**	**As of December 31, 2009**
7.25% Notes, due 2012	$204	$204
8.00% Notes, due 2013	260	260
7.86% Medium term notes, due 2013	25	25
5.75% Notes, due 2014	500	500
7.30% Notes, due 2014	200	200
5.588% Mortgage loan due 2015	49	49
6.70% Notes, due 2016	249	249
7.00% Subordinated notes, due 2067[1]	300	300
8.50% Surplus notes, due 2025	140	140
7.875% Surplus notes, due 2026	227	227
7.625% Notes, due 2028	3	3
7.00% Notes, due 2034	231	231
6.50% Notes, due 2035	471	471
7.50% Notes, due 2036	440	440
7.80% Subordinated notes, due 2087[2]	700	700
10.75% Subordinated notes, due 2088[3]	1,250	1,250
7.697% Surplus notes, due 2097	435	435
Subtotal	5,684	5,684
Unamortized discount	(49)	(49)
Total long-term debt excluding current maturities	$5,635	$5,635

[1] The par value call date and final fixed rate interest payment date is March 15, 2017, subject to certain requirements.
[2] The par value call date and final fixed rate interest payment date is March 15, 2037, subject to certain requirements.
[3] The par value call date and final fixed rate interest payment date is June 15, 2038, subject to certain requirements.

As part of its overall capital strategy, the Company previously announced that it may issue, repurchase or exchange debt depending on market conditions. Debt repurchases may be done through open market or other appropriate transactions. The Company continues to evaluate market conditions and may periodically effect transactions in its debt, subject to applicable limitations.

Debt Transactions and In-force Credit Facilities

On May 12, 2010, LMAC entered into a $200 million unsecured revolving credit facility for general corporate purposes with a syndicate of lenders led by Bank of America, N.A. that terminates three years following the date the facility first becomes available. LMAC has the ability to trigger the availability of the facility and establish the specific terms of the consolidated tangible net worth financial covenant based on then-current financials (after giving effect to certain reorganization transactions) at any time before December 31, 2010.

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

On March 26, 2010, Liberty Mutual Insurance Company (“LMIC”) entered into a $750 million three-year committed repurchase agreement. To date, LMIC has not used the repurchase agreement. In connection with the new repurchase agreement, LMIC terminated its existing $750 million 364-day committed repurchase agreement.

On March 26, 2010, PIC entered into a $250 million three-year committed repurchase agreement. The repurchase agreement is guaranteed by LMIC. To date, PIC has not used the repurchase agreement.

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

The Company places commercial paper through a program issued by LMGI and guaranteed by LMIC. Effective December 14, 2009, the $1 billion commercial paper program was reduced to $400 million and is backed by the three-year $400 million unsecured revolving credit facility. As of June 30, 2010, no commercial paper borrowings were outstanding.

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

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

On June 9, 2006, Liberty Mutual Insurance Europe Limited entered into a $20 million revolving loan facility. The facility is available to provide working capital to the Company's international operations. The revolving loan facility is guaranteed by LMIC. As of June 30, 2010, no borrowings were outstanding under the facility.

Interest Expense

Consolidated interest expense for the three and six months ended June 30, 2010 was $114 million and $230 million, decreases of $9 million and $15 million from the same periods in 2009. The decreases reflect the redemption of the 4.875% notes at maturity and debt repurchases that occurred in 2009. As previously discussed, the Company continues to evaluate market conditions and may periodically effect transactions in its debt, subject to applicable limitations. Future debt repurchases may be done through open market or other appropriate transactions.

Holding Company Liquidity and Capital Resources

The Company conducts substantially all of its operations through its wholly owned insurance and service company subsidiaries, and therefore is primarily dependent on dividends, distributions, loans or other payments of funds from these entities to meet its current and future obligations. However, the subsidiaries are separate and distinct legal entities and have no obligation to make funds available to the Company, whether in the form of loans, dividends or other distributions. As of June 30, 2010, the Company, through its downstream subsidiary LMGI, had $4.792 billion of debt outstanding, excluding discount.

The insurance subsidiaries' ability to pay dividends on preferred or common stock is restricted under applicable insurance laws and regulations and may be paid only from unassigned surplus. Under the insurance laws of the domiciliary states of the insurance subsidiaries, an insurer may make an ordinary dividend payment if its surplus as regards policyholders, following such dividend, is reasonable in relation to its outstanding liabilities, is adequate to its financial needs and does not exceed the insurer's unassigned surplus. However, no insurer may pay an extraordinary dividend without the approval or non-disapproval of the domiciliary insurance regulatory authority. Under the insurance laws of Massachusetts, the domiciliary state of LMIC, an extraordinary dividend is defined as a dividend whose fair market value, together with other dividends made within the preceding 12 months, exceeds the greater of 10% of the insurer's surplus as regards policyholders as of the preceding December 31, or the insurer's net income for the 12-month period ending on the preceding December 31. Under the insurance laws of Wisconsin, the domiciliary state of Liberty Mutual Fire Insurance Company ("LMFIC") and Employers Insurance Company of Wausau ("EICOW"), an extraordinary dividend is defined as a dividend whose fair market

value, together with other dividends paid within the preceding 12 months, exceeds the lesser of (a) 10% of the insurer's surplus as regards policyholders as of the preceding December 31, or (b) the greater of (1) the insurer's net income for the preceding calendar year, minus realized capital gains for that calendar year, or (2) the aggregate of the insurer's net income for the three preceding calendar years minus realized capital gains for those calendar years and minus dividends paid within the first two of the preceding three calendar years. Changes in the extraordinary dividend regulation of the domiciliary states of LMIC, LMFIC and EICOW could negatively affect LMGI's ability to pay principal and interest on its debt, as could a redomestication, merger or consolidation of LMIC, LMFIC or EICOW to a different domiciliary state.

The authorized control level risk-based capital (as of December 31, 2009) and 2010 available dividend capacity prior to needing regulatory approval for LMIC, LMFIC and EICOW were as follows:

$ in Millions	**RBC Ratio[1]**		**Dividend Capacity[2]**	**Dividends Paid[3]**
RBC Ratios and Dividend Capacity	**2009**	**2008**	**2010**	**2010**
LMIC [4]	479%	402%	$831	$107
LMFIC	451%	501%	$92	$8
EICOW	467%	362%	$108	-

[1] Authorized control level risk-based capital as defined by the NAIC.
[2] Represents maximum allowable dividend without prior regulatory approval in the state of domicile.
[3] Dividends paid represent amounts paid during the six months ended June 30, 2010. Available dividend capacity as of June 30, 2010 is calculated as 2010 dividend capacity less dividends paid for the preceding 12 months. Dividends paid July 1, 2009 through June 30, 2010 for LMIC, LMFIC, and EICOW are $300 million, $15 million, and zero, respectively.
[4]Any reallocation of surplus between insurance subsidiaries could change the dividend capacity of individual companies within the group. Effective January 1, 2010, the LMIC pooling percentage decreased from 75.0% to 73.8%.

LMGI also has access to the following sources of funding:

- A management services agreement with LMIC pursuant to which LMGI is entitled to collect certain costs plus a management fee for services rendered by LMGI employees, with annual fees estimated to be approximately $50 million.
- Investment management agreements with affiliated entities pursuant to which LMGI is entitled to recover approximately $54 million in annual expenses for investment management services performed by LMGI employees.
- Liberty Corporate Services LLC ("LCS"), which through its subsidiaries collects fees and other revenues, primarily for claims administration and agency services rendered for affiliated and non-affiliated entities. For the three and six months ended June 30, 2010, LCS recorded $92 million and $172 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 $14.065 billion and $14.704 billion at June 30, 2010, and December 31, 2009, respectively. The decrease in surplus primarily reflects a change in non-admitted goodwill of $415 million, unrealized losses of $152 million, dividends to stockholders of $115 million, and an increase in non-admitted deferred tax assets of $40 million, partially offset by net income of $122 million (the sum of earnings from the Company's 59 domestic insurance companies and dividends from subsidiaries).

CRITICAL ACCOUNTING POLICIES

Critical Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The Company's principal estimates include:

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

Certain reclassifications have been made to the 2009 amounts to conform with the 2010 presentation.

Adoption of New Accounting Standards

Effective January 1, 2009, the Company adopted new guidance for accounting for other-than-temporary impairments, as codified in ASC 320, *Investments – Debt and Equity Securities*. This guidance amends the accounting for other-than-temporary impairment of debt securities, requires the establishment of a policy for determining when "credit losses" exist, and provides direction on determining the amount of impairment to be recognized in the statement of income. The adoption of the new guidance resulted in an increase of $28 million (net of tax) to policyholders' unassigned equity and a corresponding decrease to accumulated comprehensive income (loss).

None of the other accounting standards adopted by the Company through the second quarter of 2010 had a material impact on the Company.

Future Adoption of New Accounting Standards

None of the accounting standards issued through the second quarter of 2010 will have 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, 2010 for further discussion of the Company's policies.

Unpaid Claims and Claim Adjustment Expenses

Reserves for property-casualty unpaid claims and claim adjustment expenses were $48.517 billion and $48.355 billion as of June 30, 2010 and December 31, 2009, respectively. The increase was primarily due to business growth and catastrophe losses 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 litigation, medical costs, the costs of repair materials, and labor rates can all affect ultimate claim costs. In addition, time can be a critical part of reserving determinations since the longer the span between the incidence of a loss and the payment or settlement of the claim, the more variable the ultimate settlement can be. Accordingly, "short-tail" claims, such as property damage claims, tend to be easier to estimate than "long-tail" claims, such as workers compensation or general liability claims.

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

Asbestos and Environmental

The Company's asbestos and environmental (A&E) reserves for unpaid claims and claim adjustment expenses, net of reinsurance and including uncollectible reinsurance decreased $303 million from $1.580 billion as of December 31, 2009 to $1.277 billion as of June 30, 2010. The decrease is primarily due to a payment on a large settlement during the period.

In the third quarter of 2009, the Company completed its biennial ground-up asbestos reserve study. The study was completed by a multi-disciplined team of internal claims, legal, reinsurance and actuarial personnel, and it included all major segments of the Company's direct, assumed, and ceded asbestos claims. As part of the internal review, potential exposures of certain policyholders were individually evaluated using the Company's proprietary stochastic model, which is consistent with published actuarial papers on asbestos reserving. Among the factors reviewed in depth by the team of specialists were the type of business, level of exposure, coverage limits, geographic distribution of products, types of injury, state jurisdictions, legal defenses, and reinsurance potential. The remaining policyholders (those with less potential exposure) were evaluated using aggregate methods that utilized information and experience specific to these insureds. The study resulted in an increase to reserves of $383 million. The previous comprehensive study was completed in 2007. Between comprehensive studies, the Company monitors asbestos activity to determine whether or not any adjustment to reserves is warranted. The Company completed its annual study on the environmental claims liability, resulting in immaterial adjustments to held reserves.

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

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

Reinsurance Recoverables

The Company reported reinsurance recoverables of $15.135 billion and $14.749 billion at June 30, 2010 and December 31, 2009, respectively, net of allowance for doubtful accounts. The increase is primarily due to the Chilean earthquake.

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 94% of the Company's reinsurance recoverable balance, net of collateral held and including voluntary and involuntary pools and associations, was placed with reinsurers rated A- or better from A.M. Best at June 30, 2010. Collateral held against outstanding gross reinsurance recoverable balances was $5.409 billion and $5.774 billion at June 30, 2010 and December 31, 2009, respectively.

The remaining 6% 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, 2010.

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. As of June 30, 2010, and December 31, 2009, deferred gains related to these reinsurance arrangements were $567 million and $592 million, respectively, and are included in other liabilities within the consolidated balance sheets. Interest credited to the funds held balances for the three months and six months ended June 30, 2010 was $30 million and $59 million, respectively, as compared to $29 million and $58 million for the three months and six months ended June 30, 2009, respectively. Deferred gain amortization for the three months and six months ended June 30, 2010 was $17 million and $34 million, respectively, as compared to $17 million and $33 million for the three months and six months ended June 30, 2009, respectively. Reinsurance recoverables related to these transactions, including experience related profit accruals, were $1.991 billion and $2.019 billion as of June 30, 2010 and December 31, 2009, respectively.

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

In 2007, the Company entered into a multi-year property catastrophe reinsurance agreement with Mystic Re II Ltd. ("Mystic Re II"), a Cayman Islands domiciled reinsurer, to provide $150 million of reinsurance coverage for the Company and its affiliates in the event of a Northeast and/or Florida hurricane event. In the first quarter 2009, the Company entered into another agreement with Mystic Re II to provide $225 million of additional reinsurance coverage for the Company in the event of a U.S. hurricane or earthquake event. The reinsurance agreements are collateralized through a trust and guarantee received by Mystic Re II from the issuance of catastrophe bonds and provide coverage for hurricane or earthquake-related losses based on industry insured losses as reported by Property Claim Services along with company specific losses on the event. The Company has not recorded any recoveries under these programs. Mystic Re II does not have any other reinsurance in force.

Impairment Losses on Investments

If the Company believes a decline in the value of a particular investment is temporary, the decline is recorded as an unrealized loss in policyholders' equity. If the decline is believed to be "other-than-temporary," and the Company believes that it will not be able to collect all cash flows due on its fixed income securities, then the carrying value of the investment is written down to the expected cash flow amount and a realized loss is recorded as a credit impairment. A non-credit impairment loss is recognized in other comprehensive income, net of applicable taxes as the difference between expected cash flow and fair value.

The Company reviews fixed income, public equity securities and private equity and private equity co-investment securities for impairment on a quarterly basis. Securities are reviewed for both quantitative and qualitative considerations including, but not limited to: (a) the extent of the decline in fair value below book value, (b) the duration of the decline, (c) significant adverse changes in the financial condition or near term prospects of the investment or issuer, (d) significant change in the business climate or credit ratings of the issuer, (e) general market conditions and volatility, (f) industry factors, and (g) the past impairment of the security holding or the issuer. For fixed 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. 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 quarter end, the Company has not recognized any additional material other-than-temporary impairments.

Variable Interest Entities

The Company invests in energy, private equity and real estate limited partnerships and other entities subject to variable interest entity (VIE) analysis under the VIE subsections of ASC 810, *Consolidation*. The Company analyzes each investment to determine whether it is a VIE, and if so, whether the Company is the primary beneficiary or a significant interest holder based on a qualitative and quantitative assessment. The Company evaluates the design of the entity, the risks to which the entity was designed to expose the variable interest holder and the extent of the Company's control of and variable interest in the VIE. As of December 31, 2009, the Company determined that it was the primary beneficiary of two VIEs in the energy investment sector, and as such, these VIEs were consolidated in the Company's 2009 financial statements. The carrying value of assets and liabilities, and the Company's maximum exposure to loss of the consolidated VIEs were immaterial to the Company. These entities were deconsolidated in 2010 upon adoption of the revised guidance in ASC 810 when the Company determined that it did not have a controlling financial interest in the VIEs.

The Company has variable interests in VIEs for which it is not the primary beneficiary and accounts for these VIEs under the equity method in accordance with ASC 323. The VIEs are principally private equity limited partnerships in which the Company has invested as a passive limited partner. The partnerships were deemed to be VIEs because the equity holders as a group lack the power to direct the activities that most significantly impact the respective entity's economic performance. The VIEs generate variability primarily from investment portfolio performance and that variability is passed to equity holders. For these VIEs, the Company absorbs a portion, but not majority, of this variability. The carrying value of assets was $88 million and $87 million as of June 30, 2010 and December 31, 2009, respectively and the Company's maximum exposure to loss was $100 million and $99 million as of June 30, 2010 and December 31, 2009, respectively for unconsolidated VIEs in which the Company has a significant variable interest. The assets are included in Other Investments on the Consolidated Balance Sheets. Maximum exposure to loss includes the carrying value and unfunded commitment of the VIE. There is no recourse provision to the general credit of the Company for any VIE beyond the full amount of the Company's loss exposure.

Derivatives

The Company has a Derivative Use Policy, which has been approved by the Investment Committee of each domestic insurance subsidiary that has entered into derivative transactions. Pursuant to the policy, the Company may enter into derivative transactions. As of June 30, 2010, the Company had no material derivative agreements in place. In August 2008, the Company, as part of its risk management program and diversification strategy, entered into two 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

Total deferred policy acquisition costs were $2.663 billion and $2.636 billion as of June 30, 2010 and December 31, 2009, respectively. Deferred policy acquisition costs are costs that vary with, and are primarily related to, the acquisition of new and renewal insurance and investment contracts that are deferred and amortized over the respective policy terms. Deferred acquisition costs are reviewed annually for recoverability. Investment income is considered in the recoverability assessment. For short-duration insurance contracts, acquisition costs include commissions, underwriting expenses, and premium taxes and assessments. For long-duration insurance contracts, these costs include first year commissions in excess of annual renewal commissions and variable sales, underwriting and administrative expenses.

Goodwill

Goodwill assets were $4.713 billion and $4.748 billion as of June 30, 2010 and December 31, 2009, respectively. Goodwill is tested for impairment at least annually (performed in the fourth quarter) using a two-step process. The first step is performed to identify potential impairment and, if necessary, the second step is performed for the purpose of measuring the amount of impairment, if any. Impairment is recognized only if the carrying amount is not recoverable from the discounted cash flows using a "market" rate and is measured as the difference between the carrying amount and the implied fair value. No impairments were recorded in 2010 or 2009. Other changes in the carrying amount of goodwill are primarily caused by foreign currency translation adjustments and adjustments to valuation allowances for acquired tax losses.

Deferred Income Taxes

The net deferred income tax asset was $1.168 billion and $1.691 billion as of June 30, 2010 and December 31, 2009, respectively, net of a valuation allowance of $163 million and $160 million, respectively. The net decrease in the Company's net deferred income tax asset is primarily due to the change in net unrealized capital gains and losses on certain investments and a non-recurring charge due to a tax law change. The net increase in the Company's valuation allowance is primarily due to 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 December 31, 2009	$221
Additions based on tax positions related to current year	7
Additions for tax positions of prior years	14
Reductions for tax positions of prior years	-
Settlements	(1)
Balance at June 30, 2010	$241

Included in the tabular roll forward of unrecognized tax benefits is interest in the amount of $88 million and $85 million as of June 30, 2010, and December 31, 2009, respectively.

Included in the balance at June 30, 2010 is $139 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, 2010 and 2009, respectively, the

Company recognized approximately $3 million and $12 million of interest and penalties, respectively. The Company had approximately $85 million and $82 million of interest and penalties accrued at June 30, 2010 and December 31, 2009, respectively.

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

The IRS has completed its review of the Company's Federal income tax returns through the 1998 tax year and is currently reviewing income tax returns for the 1999 through 2007 tax years. Any adjustments that may result from the IRS 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 2009 direct written premium. The Company also ranks 71st on the Fortune 500 list of largest corporations in the United States based on 2009 revenue. As of December 31, 2009, LMG had $109.475 billion in consolidated assets, $94.961 billion in consolidated liabilities, and $31.094 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 45,000 people in more than 900 offices throughout the world. For a full description of the Company's business operations, products and distribution channels, please visit Liberty Mutual's Investor Relations web site at www.libertymutual.com/investors.