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

Quarter Ended June 30, 2011

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

The following discussion highlights significant factors influencing results of operations and changes in financial position of Liberty Mutual Holding Company Inc., the parent corporation of the Liberty Mutual Group of companies (the "Company" or "LMG"), for the three and six months ended June 30, 2011 and 2010. This Management's Discussion & Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the Company's 2010 Annual Report, June 30, 2011 Unaudited Consolidated Financial Statements and Second Quarter 2011 Financial Supplement located on the Company's Investor Relations website at www.libertymutual.com/investors. The Company's discussions related to net income are presented in conformity with U.S. generally accepted accounting principles ("GAAP") on an after-tax basis. All other discussions are presented on a pre-tax GAAP basis, unless otherwise noted.

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Cautionary Statement Regarding Forward Looking Statements

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

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

EXECUTIVE SUMMARY

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

Three Months Ended June 30, 2011 - Consolidated Results of Operations

- Revenues for the three months ended June 30, 2011 were $8.560 billion, an increase of $494 million or 6.1% over the same period in 2010.
- Net written premium for the three months ended June 30, 2011 was $7.723 billion, an increase of $440 million or 6.0% over the same period in 2010.
- Pre-tax operating loss before private equity income for the three months ended June 30, 2011 was $384 million versus $183 million of pre-tax operating income before private equity income in the same period in 2010.
- Pre-tax operating loss for the three months ended June 30, 2011 was $256 million versus $188 million of pre-tax operating income in the same period in 2010.
- Net loss for the three months ended June 30, 2011 was $170 million versus $220 million of net income in the same period in 2010.
- Cash flow from operations for the three months ended June 30, 2011 was $302 million, a decrease of $284 million or 48.5% from the same period in 2010.
- The combined ratio before catastrophes[1] and net incurred losses attributable to prior years[2] for the three months ended June 30, 2011 was 94.5%, a decrease of 2.6 points from the same period in 2010. Including the impact of catastrophes and net incurred losses attributable to prior years, the Company's combined ratio for the three months ended June 30, 2011 increased 7.7 points to 112.4%.

Six Months Ended June 30, 2011 - Consolidated Results of Operations

- Revenues for the six months ended June 30, 2011 were $16.941 billion, an increase of $685 million or 4.2% over the same period in 2010.
- Net written premium for the six months ended June 30, 2011 was $15.306 billion, an increase of $814 million or 5.6% over the same period in 2010.
- Pre-tax operating loss before private equity income for the six months ended June 30, 2011 was $153 million versus $487 million of pre-tax operating income before private equity income in the same period in 2010.
- Pre-tax operating income for the six months ended June 30, 2011 was $185 million, a decrease of $391 million or 67.9% from the same period in 2010.

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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 the 2010 Chilean and New Zealand earthquakes, the 2011 Australian floods, Cyclone Yasi, Japanese earthquake and tsunami, New Zealand earthquakes and the tornadoes and severe storms in the U.S. 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) including both earned premium attributable to prior years and amortization of retroactive reinsurance gains.

- Net income for the six months ended June 30, 2011 was $192 million, a decrease of $343 million or 64.1% from the same period in 2010.

- Cash flow from operations for the six months ended June 30, 2011 was $908 million, a decrease of $137 million or 13.1% from the same period in 2010.

- The combined ratio before catastrophes and net incurred losses attributable to prior years for the six months ended June 30, 2011 was 95.7%, a decrease of 1.5 points from the same period in 2010. Including the impact of catastrophes and net incurred losses attributable to prior years, the Company's combined ratio for the six months ended June 30, 2011 increased 4.0 points to 107.5%.

Financial Condition as of June 30, 2011

- Total assets were $115.724 billion as of June 30, 2011, an increase of $3.374 billion over December 31, 2010.

- Policyholders' equity was $17.769 billion as of June 30, 2011, an increase of $791 million over December 31, 2010.

CONSOLIDATED RESULTS OF OPERATIONS

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

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

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

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

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

Overview – Consolidated

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

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
Private passenger automobile	$2,653	$2,537	4.6%	$5,163	$4,936	4.6%
Workers compensation	847	897	(5.6)	1,900	1,961	(3.1)
Homeowners	847	763	11.0	1,517	1,381	9.8
Commercial multiple peril / fire	630	606	4.0	1,236	1,194	3.5
International local businesses (excluding private passenger automobile)	522	402	29.9	1,039	851	22.1
Lloyd's Syndicate 4472	314	257	22.2	829	653	27.0
Commercial automobile	390	404	(3.5)	739	797	(7.3)
General liability	320	301	6.3	652	597	9.2
LIU[1] third party	235	162	45.1	420	323	30.0
Group disability and life	195	171	14.0	402	342	17.5
Surety	192	189	1.6	381	363	5.0
LIU first party	129	100	29.0	200	160	25.0
LIU inland marine program	99	168	(41.1)	195	325	(40.0)
Individual life	78	66	18.2	147	140	5.0
Assumed voluntary reinsurance	49	51	(3.9)	83	93	(10.8)
Other[2]	223	209	6.7	403	376	7.2
Total NWP[3]	$7,723	$7,283	6.0%	$15,306	$14,492	5.6%

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 SBU was as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
LMAC	$2,642	$2,663	(0.8%)	$5,145	$5,176	(0.6%)
International	2,050	1,742	17.7	4,040	3,489	15.8
Personal Markets	1,880	1,739	8.1	3,555	3,311	7.4
Commercial Markets	1,319	1,270	3.9	2,908	2,748	5.8
Corporate and Other	(168)	(131)	28.2	(342)	(232)	47.4
Total net written premium (NWP)	$7,723	$7,283	6.0%	$15,306	$14,492	5.6%
Foreign exchange effect on growth			1.5%			0.7%
NWP growth excluding foreign exchange			4.5%			4.9%

Major drivers of net written premium growth were as follows:

$ in Millions	Three Months Ended June 30, 2011	2010	$ Change	Points Attribution	Six Months Ended June 30, 2011	2010	$ Change	Points Attribution
LMG NWP	$7,723	$7,283	$440	6.0	$15,306	$14,492	$814	5.6
Components of Growth:								
International local businesses (excluding foreign exchange)	1,212	1,067	145	2.0	2,408	2,107	301	2.1
Lloyd's Syndicate 4472	314	257	57	0.8	829	653	176	1.2
-Domestic homeowners	1,028	928	100	1.4	1,843	1,680	163	1.1
-Homeowners quota share	(181)	(165)	(16)	(0.2)	(326)	(299)	(27)	(0.2)
Total Homeowners	847	763	84	1.2	1,517	1,381	136	0.9
Foreign exchange	111	-	111	1.5	99	-	99	0.7
Group disability and life	195	171	24	0.3	402	342	60	0.4
Domestic personal auto	1,872	1,872	-	-	3,708	3,680	28	0.2
Surety	192	189	3	-	381	363	18	0.1
Individual life	78	66	12	0.2	147	140	7	-
Other commercial lines	2,902	2,898	4	-	5,815	5,826	(11)	-
Total LMG NWP	$7,723	$7,283	$440	6.0	$15,306	$14,492	$814	5.6

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

$ in Millions	Three Months Ended June 30, 2011	2010	Change	Six Months Ended June 30, 2011	2010	Change
U.S.	$5,918	$5,821	1.7%	$11,727	$11,541	1.6%
International[1]	1,805	1,462	23.5	3,579	2,951	21.3
Total NWP	$7,723	$7,283	6.0%	$15,306	$14,492	5.6%

1 Excludes domestically written business in the International SBU.

Net written premium for the three and six months ended June 30, 2011 was $7.723 billion and $15.306 billion, respectively, increases of $440 million and $814 million over the same periods in 2010. Significant changes by major line of business include:

- Private passenger automobile net written premium increased $116 million and $227 million in the quarter and year-to-date, respectively. The increases in both periods primarily reflect growth of policies in-force and rate increases in Personal Markets, as well as organic growth in International's local businesses, primarily in Latin America. The increase was partially offset by the timing of LMAC renewal premium due to the introduction of an annual private passenger automobile product in the second half of 2010.
- Workers compensation net written premium decreased $50 million and $61 million in the quarter and year-to-date, respectively. The decreases in both periods were primarily driven by disciplined underwriting in a continued competitive market partially offset by an increase in audit and retrospectively rated premiums and modest rate increases. A significant construction account in Commercial Markets also partially offset the year-to-date decrease.
- Homeowners net written premium increased $84 million and $136 million in the quarter and year-to-date, respectively. The increases in both periods were primarily driven by Personal Markets and LMAC's growth in homeowners policies in-force and rate increases.
- International local businesses net written premium (excluding private passenger automobile) increased $120 million and $188 million in the quarter and year-to-date, respectively. The

increases in both periods were primarily driven by organic growth in Latin America, led by Venezuela (primarily due to the impact of inflation), and Asia, led by Thailand and China.

- Lloyd's Syndicate 4472 net written premium increased $57 million and $176 million in the quarter and year-to-date, respectively. The increases primarily reflect new business growth.
- Commercial automobile net written premium decreased $14 million and $58 million in the quarter and year-to-date, respectively. The decreases in both periods primarily reflect lower retention and lower new business written.
- General liability net written premium increased $19 million and $55 million in the quarter and year-to-date, respectively. The increase in the quarter reflects improved retention and new business growth. The year-to-date increase also reflects a construction account with multi-year exposures in Commercial Markets.
- LIU third party increased $73 million and $97 million in the quarter and year-to-date, respectively. The increases primarily reflect new business in casualty lines.
- Group disability and life net written premium increased $24 million and $60 million in the quarter and year-to-date, respectively. The increases reflect continued penetration of those markets and a large disability account transfer in the first quarter.
- LIU first party increased $29 million and $40 million in the quarter and year-to-date, respectively. The increases in both periods reflect U.S. oil & gas business with higher renewals from increased participation, higher values and higher rates.
- LIU inland marine program net written premium decreased $69 million and $130 million in the quarter and year-to-date, respectively. The decreases reflect higher ceded premium due to a change in a reinsurance program.

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

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

Results of Operations – Consolidated

$ in Millions	Three Months Ended June 30, 2011	2010	Change	Six Months Ended June 30, 2011	2010	Change
Revenues	$8,560	$8,066	6.1%	$16,941	$16,256	4.2%
Pre-tax operating income ("PTOI") before catastrophes, net incurred losses attributable to prior years, private equity income and Venezuelan devaluation	$867	$589	47.2%	$1,477	$1,193	23.8%
Catastrophes[1,2]	(1,263)	(482)	162.0	(1,851)	(927)	99.7
Net incurred losses attributable to prior years:						
- Asbestos & environmental	(1)	-	NM	(2)	(3)	(33.3)
- All other[3]	13	(29)	NM	223	87	156.3
Venezuelan devaluation	-	105	(100.0)	-	137	(100.0)
Pre-tax operating (loss) income before private equity income	(384)	183	NM	(153)	487	NM
Private equity income[4]	128	5	NM	338	89	NM
Pre-tax operating (loss) income	(256)	188	NM	185	576	(67.9)
Realized gains, net	51	111	(54.1)	127	206	(38.3)
Loss on extinguishment of debt	(40)	-	NM	(40)	-	NM
Income tax benefit (expense)	75	(79)	NM	(80)	(247)	(67.6)
Net (loss) income	($170)	$220	NM	$192	$535	(64.1%)
Cash flow from operations	$302	$586	(48.5%)	$908	$1,045	(13.1%)

1 Catastrophes include all current and prior year catastrophe losses including assessments from TWIA and exclude losses related to the Company's external reinsurance assumed lines (assumed voluntary reinsurance and reinsurance assumed through Lloyd's Syndicate 4472) except for the 2010 Chilean and New Zealand earthquakes, the 2011 Australian floods, Cyclone Yasi, Japanese earthquake and tsunami, New Zealand earthquakes and the tornadoes and severe storms in the U.S. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

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

3 Net of earned premium attributable to prior years of $9 million and $16 million for the three and six months ended June 30, 2011 and ($107) million and ($95) million for the comparable periods in 2010. Net of amortization of deferred gains on retroactive reinsurance of $14 million and $113 million for the three and six months ended June 30, 2011 and $17 million and $35 million for the comparable periods in 2010. 2011 reflects a gain on commutation of two retroactive reinsurance contracts during the first quarter.

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

NM = Not Meaningful

Pre-tax operating (loss) income for the three and six months ended June 30, 2011 was ($256) million and $185 million, respectively, versus $188 million and $576 million in the same periods in 2010. The decreases in both periods reflect higher catastrophe losses, partially offset by earned premium growth, private equity income due to improved market valuations, favorable net incurred losses attributable to prior years and the commutation of two workers compensation retroactive reinsurance agreements.

Revenues for the three and six months ended June 30, 2011 were $8.560 billion and $16.941 billion, respectively, increases of $494 million and $685 million over the same periods in 2010. The major components of revenues are net premium earned, net investment income, net realized investment gains, and fee and other revenues.

Net premium earned for the three and six months ended June 30, 2011 was $7.422 billion and $14.603 billion, respectively, increases of $397 million and $479 million over the same periods in 2010. The increases in both periods primarily reflect rate increases and growth in policies in-force in the private passenger automobile and homeowners lines of business in Personal Markets and LMAC, as well as organic growth in International, primarily Latin America and Asia, foreign exchange and a decrease in the estimate of prior year earned premium on loss sensitive business recorded in the quarter ended June 30,

2010 that did not recur. These increases were partially offset by the impact of the Venezuelan devaluation in 2010.

Net investment income for the three and six months ended June 30, 2011 was $874 million and $1.789 billion, respectively, increases of $137 million and $242 million over the same periods in 2010. The increases in both periods primarily reflect an increase in limited partnerships' and limited liability companies' income of $123 million and $249 million, respectively, as a result of improved valuations.

Net realized investment gains for the three and six months ended June 30, 2011 were $51 million and $127 million, respectively, decreases of $60 million and $79 million from the same periods in 2010. The decreases primarily reflect a $21 million foreign exchange loss recognized in 2011 on Venezuelan securities, combined with sales undertaken during 2010 in connection with the shift in the Company's tactical allocation that did not recur in 2011, partially offset by gains recognized from the sale of common equities in 2011.

Fee and other revenues for the three and six months ended June 30, 2011 were $213 million and $422 million, respectively, increases of $20 million and $43 million over the same periods in 2010. The increases in both periods primarily reflect higher oil and gas revenues in Corporate and Other due to an increase in price and increased production.

Claims, benefits and expenses for the three and six months ended June 30, 2011 were $8.765 billion and $16.629 billion, respectively, increases of $998 million and $1.155 billion over the same periods in 2010. The increases in both periods reflect higher catastrophe losses primarily related to the tornadoes and severe storms in the U.S. and the second quarter New Zealand earthquake and an increase in losses and expenses consistent with business growth. The increase year-to-date also reflects higher catastrophe losses related to the Australian floods, Cyclone Yasi, Japanese earthquake and tsunami and the first quarter New Zealand earthquake. These increases were partially offset by lower non-catastrophe related losses, favorable net incurred losses attributable to prior years, a foreign exchange loss as a result of the Venezuelan devaluation in 2010 that did not recur, the commutation of two workers compensation retroactive reinsurance agreements and lower variable compensation costs.

Income tax benefit (expense) for the three and six months ended June 30, 2011 was $75 million and ($80) million, respectively, versus ($79) million and ($247) million in the same periods in 2010. The Company's effective tax rate for the three and six months ended June 30, 2011 was 31% and 29% compared to 26% and 32% for the same periods in 2010. The increase in effective tax rate for the three months ended June 30, 2010 to 2011 was due to a reduction in tax-exempt investment income, higher foreign taxes and lower pre-tax income. The decrease in the effective tax rate for the six months ended June 30, 2010 to 2011 was due to lower pre-tax income in 2011 and a $55 million one-time charge in 2010 related to 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.

Net (loss) income for the three and six months ended June 30, 2011, was ($170) million and $192 million, respectively, versus $220 million and $535 million in the same periods in 2010.

Cash flow from operations for the three and six months ended June 30, 2011 was $302 million and $908 million, respectively, decreases of $284 million and $137 million from the same periods in 2010. The decreases reflect higher catastrophe paid losses, increased ceded premium payments associated with the homeowners quota share treaty and higher net federal tax payments due to a refund in 2010 that did not recur in 2011, partially offset by premium collections and the settlement of a large asbestos claim that was paid in 2010 that did not recur in 2011.

CONSOLIDATED	Three Months Ended June 30, 2011	2010[1]	Change (Points)	Six Months Ended June 30, 2011	2010[1]	Change (Points)
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	66.3%	68.5%	(2.2)	67.2%	68.7%	(1.5)
Underwriting expense ratio	28.1	28.4	(0.3)	28.3	28.3	-
Dividend ratio	0.1	0.2	(0.1)	0.2	0.2	-
Subtotal	94.5	97.1	(2.6)	95.7	97.2	(1.5)
Catastrophes[2,3]	17.8	7.1	10.7	13.2	6.9	6.3
Net incurred losses attributable to prior years:						
- Asbestos & environmental	0.3	-	0.3	0.2	-	0.2
- All other	(0.2)	0.5	(0.7)	(1.6)	(0.6)	(1.0)
Total combined ratio[4]	112.4%	104.7%	7.7	107.5%	103.5%	4.0

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 the 2010 Chilean and New Zealand earthquakes, the 2011 Australian floods, Cyclone Yasi, Japanese earthquake and tsunami, New Zealand earthquakes and the tornadoes and severe storms in the U.S. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

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

4 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, 2011 was 94.5% and 95.7%, respectively, decreases of 2.6 points and 1.5 points from the same periods in 2010. The decreases in the claims and claim adjustment expense ratio for both periods reflect favorable non-catastrophe results in Lloyd's Syndicate 4472 business and, to a lesser extent, in Latin America, and favorable loss trends in homeowners, private passenger automobile and surety lines of business. The decreases were partially offset by the impact of deteriorating loss trends in LMAC's commercial liability lines and a higher reported loss and loss adjustment expense ("LAE") ratio in workers compensation.

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, 2011 was 112.4% and 107.5%, respectively, increases of 7.7 points and 4.0 points over the same periods in 2010. The increases in both periods reflect higher catastrophe losses related to the tornadoes and severe storms in the US and the second quarter New Zealand earthquake. The increase year-to-date also reflects higher catastrophe losses related to the Australian floods, Cyclone Yasi, Japanese earthquake and tsunami and the first quarter New Zealand earthquake. These items were partially offset by the changes in the combined ratio previously discussed and favorable net incurred losses attributable to prior years.

LIBERTY MUTUAL AGENCY CORPORATION

Overview – Liberty Mutual Agency Corporation

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

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

LMAC net written premium by segment was as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
Personal	$1,286	$1,297	(0.8%)	$2,487	$2,495	(0.3%)
Commercial	1,120	1,149	(2.5)	2,199	2,257	(2.6)
Surety	189	189	-	376	363	3.6
Corporate and Other[1]	47	28	67.9	83	61	36.1
Total net written premium	$2,642	$2,663	(0.8%)	$5,145	$5,176	(0.6%)

1 Includes run-off operations and internal reinsurance.

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

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
Commercial Lines						
Commercial multiple peril	$466	$460	1.3%	$914	$915	(0.1%)
Commercial automobile	277	285	(2.8)	534	553	(3.4)
Workers compensation	220	225	(2.2)	439	448	(2.0)
Surety	192	189	1.6	381	363	5.0
General liability	123	128	(3.9)	238	250	(4.8)
Other	76	77	(1.3)	146	145	0.7
Subtotal	$1,354	$ 1,364	(0.7)	$2,652	$ 2,674	(0.8)
Personal Lines						
Private passenger automobile	$716	$781	(8.3)	$1,465	$1,562	(6.2)
Homeowners	445	401	11.0	794	724	9.7
Other	127	117	8.5	234	216	8.3
Subtotal	$1,288	$ 1,299	(0.8)	$2,493	$ 2,502	(0.4)
Total net written premium	$2,642	$2,663	(0.8%)	$5,145	$5,176	(0.6%)

Net written premium for the three and six months ended June 30, 2011 was $2.642 billion and $5.145 billion, respectively, decreases of $21 million and $31 million from the same periods in 2010. The decreases in both periods reflect lower private passenger automobile renewal premium due to the introduction of an annual private passenger automobile product in the second half of 2010, which resulted in formerly six month term policies that previously renewed in the first six months now having annual renewal dates later in the year. Additionally, both periods were affected by a decline in commercial lines new business premium (excluding surety) due to a more competitive market environment, and a lower average policy premium. These items were partially offset by higher personal lines rates, new business and retention, favorable commercial lines audit premiums, and favorable contract surety premium.

Results of Operations – Liberty Mutual Agency Corporation

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
Revenues	$2,857	$2,954	(3.3%)	$5,669	$5,853	(3.1%)
PTOI before catastrophes, net incurred losses attributable to prior years and private equity income	$402	$316	27.2%	$716	$706	1.4%
Catastrophes[1]	(800)	(267)	199.6	(995)	(409)	143.3
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	-	-	-	-	-
- All other[2]	86	26	NM	184	129	42.6
Pre-tax operating (loss) income before private equity income (loss)	($312)	$75	NM	($95)	$426	NM
Private equity income (loss)[3]	1	(7)	NM	1	(5)	NM
Pre-tax operating (loss) income[4]	($311)	$68	NM	($94)	$421	NM

1 Catastrophes include all current and prior year catastrophe losses. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.
2 Net of earned premium attributable to prior years of zero for the three and six months ended June 30, 2011 and zero and $10 million for the comparable periods in 2010.
3 Private equity income is included in net investment income in the accompanying statements of income.
4 2010 PTOI excludes a certain intercompany reinsurance agreement related to our run-off business which eliminates in consolidation.
NM = Not Meaningful

Pre-tax operating (loss) income for the three and six months ended June 30, 2011 was ($311) million and ($94) million, respectively, versus $68 million and $421 million for the same periods in 2010. The decreases in both periods are driven by higher catastrophe losses, as the quarter was adversely impacted by significant tornado and wind events largely concentrated in the Midwest and Southeast. The year was also impacted by weather-related losses in the first quarter of 2011. In addition, both periods were impacted by lower net investment income, higher commercial lines liability losses, and higher amortization of deferred acquisition costs in 2011. These items were partially offset by favorable loss trends in the private passenger automobile and surety lines of business and lower variable compensation costs.

Revenues for the three and six months ended June 30, 2011 were $2.857 billion and $5.669 billion, respectively, decreases of $97 million and $184 million from the same periods in 2010. The major components of revenues are net premium earned, net investment income, and net realized gains.

Net premium earned for the three and six months ended June 30, 2011 was $2.616 billion and $5.170 billion, respectively, increases of $43 million and $57 million over the same periods in 2010. The increases in both periods reflect increased personal lines rate, retention, and new business, and surety growth.

Net investment income for the three and six months ended June 30, 2011 was $206 million and $410 million, respectively, decreases of $9 million and $53 million from the same periods in 2010. The decreases in both periods are primarily driven by a lower invested asset base in 2011 due to intercompany dividends paid during 2010, and lower investment yields.

Net realized gains for the three and six months ended June 30, 2011 were $12 million and $42 million, respectively, decreases of $128 million and $185 million from the same periods in 2010. The decreases in both periods reflect gains related to internal transfers of investments between LMAC and affiliates in 2010 that did not recur and lower sales of fixed income securities in 2011.

Claims, benefits and expenses for the three and six months ended June 30, 2011 were $3.156 billion and $5.721 billion, respectively, increases of $287 million and $393 million over the same periods in 2010.

The increases in both periods are driven by higher catastrophe losses, higher commercial lines liability losses, and higher amortization of deferred acquisition costs in 2011. These items were partially offset by favorable loss trends in the private passenger automobile and surety lines of business and lower variable compensation costs.

	Three Months Ended June 30,			Six Months Ended June 30,		
LIBERTY MUTUAL AGENCY CORPORATION	**2011**	**2010**	**Change (Points)**	**2011**	**2010**	**Change (Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	60.2%	63.2%	(3.0)	61.6%	62.8%	(1.2)
Underwriting expense ratio	30.8	31.5	(0.7)	31.1	31.0	0.1
Dividend ratio	0.2	0.1	0.1	0.2	0.2	-
Subtotal	91.2	94.8	(3.6)	92.9	94.0	(1.1)
Catastrophes[1]	30.6	10.4	20.2	19.3	8.0	11.3
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	-	-	-	-	-
- All other	(3.3)	(0.9)	(2.4)	(3.7)	(2.5)	(1.2)
Total combined ratio[2]	118.5%	104.3%	14.2	108.5%	99.5%	9.0

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

2 2010 combined ratio excludes a certain intercompany reinsurance agreement related to our run-off business which eliminates in consolidation.

The LMAC combined ratio before catastrophes and net incurred losses attributable to prior years for the three and six months ended June 30, 2011 was 91.2% and 92.9%, respectively, decreases of 3.6 points and 1.1 points from the same periods in 2010. The decreases in the claims and claim adjustment expense ratio for both periods primarily reflect favorable loss trends in the private passenger automobile and surety lines of business, partially offset by higher commercial lines liability losses. The decrease in the underwriting expense ratio for the quarter is primarily driven by lower variable compensation costs. The increase in the underwriting expense ratio for the year is primarily driven by higher deferred acquisition costs amortizing in 2011, substantially offset by the previously discussed decline in variable compensation 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, 2011 was 118.5% and 108.5%, respectively, increases of 14.2 points and 9.0 points over the same periods in 2010. The increases in both periods are primarily driven by higher catastrophe losses, partially offset by the changes in the combined ratio previously discussed and favorable net incurred losses attributable to prior years. The favorable net incurred losses attributable to prior years in both periods were primarily driven by favorable trends in the surety and private passenger automobile liability lines of business. The quarter was adversely impacted by significant tornado and wind events that were largely concentrated in the Midwest and Southeast. The year was further impacted by weather-related losses in the first quarter of 2011.

INTERNATIONAL

Overview – International

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

International net written premium by market segment was as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
International Local Businesses Total	$1,293	$1,068	21.1%	$2,467	$2,079	18.7%
- Latin America	845	683	23.7	1,648	1,341	22.9
- Europe	356	315	13.0	635	600	5.8
- Asia	92	70	31.4	184	138	33.3
Liberty International Underwriters	757	674	12.3	1,573	1,410	11.6
Total net written premium (NWP)	$2,050	$1,742	17.7%	$4,040	$3,489	15.8%
Foreign exchange effect on growth			6.3%			2.8%
NWP growth excluding foreign exchange			11.4%			13.0%

International's major product lines are as follows:

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

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

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
Local businesses – private passenger auto	$781	$665	17.4%	$1,453	$1,252	16.1%
Local businesses – all other[1]	512	403	27.0	1,014	827	22.6
Lloyd's Syndicate 4472	319	256	24.6	773	609	26.9
LIU inland marine program	99	168	(41.1)	195	325	(40.0)
LIU third party	218	158	38.0	402	319	26.0
LIU first party	96	78	23.1	164	134	22.4
LIU other	25	14	78.6	39	23	69.6
Total net written premium	$2,050	$1,742	17.7%	$4,040	$3,489	15.8%

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, 2011 was $2.050 billion and $4.040 billion, respectively, increases of $308 million and $551 million over the same periods in 2010. The increases in both periods reflect organic growth in local operations, primarily Latin America, led by Venezuela (primarily due to the impact of inflation), as well as Asia, led by Thailand and China. Europe, excluding Spain whose decline is a result of its continuing economic challenges, also had organic growth. The increases in both periods also reflect growth in LIU, primarily driven by Lloyd's Syndicate 4472 due to new business growth, and to a lesser extent, LIU third party due to new business from casualty lines. The increases were partially offset by an increase in the amount of ceded written premium in LIU's inland marine business due to a change in a reinsurance program resulting in less net premium retained. Also contributing to the growth in both periods was foreign exchange (approximately $109 million and $98 million in the quarter and year-to-date, respectively).

Results of Operations – International

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2011**	**2010[1]**	**Change**	**2011**	**2010[1]**	**Change**
Revenues	$2,079	$1,943	7.0%	$4,052	$3,910	3.6%
PTOI before catastrophes, net incurred losses attributable to prior years and Venezuelan devaluation	$215	$145	48.3%	$368	$255	44.3%
Catastrophes[2]	(85)	(30)	183.3%	(337)	(113)	198.2%
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	-	-	-	-	-
- All other[3]	26	63	(58.7%)	65	57	14.0%
Venezuelan devaluation	-	105	(100.0%)	-	137	(100.0%)
Pre-tax operating income	$156	$283	(44.9%)	$96	$336	(71.4%)

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 and exclude losses related to the Company's external reinsurance assumed lines (reinsurance assumed through Lloyd's Syndicate 4472) except for the 2010 Chilean and New Zealand earthquakes, the 2011 Australian floods, Cyclone Yasi, Japanese earthquake and tsunami, New Zealand earthquakes and the tornadoes and severe storms in the U.S. 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 $1 million and $7 million for the three and six months ended June 30, 2011 and zero and ($1) million for the comparable periods in 2010.

Pre-tax operating income for the three and six months ended June 30, 2011 was $156 million and $96 million, respectively, decreases of $127 million and $240 million from the same periods in 2010. The decreases in both periods reflect increased catastrophe losses, primarily in Lloyd's Syndicate 4472 business related to the tornadoes and severe storms in the U.S. and the second quarter New Zealand earthquake. The decrease year-to-date also reflects the Australian floods, Cyclone Yasi, Japanese earthquake and tsunami and the first quarter New Zealand earthquake. In the prior year, catastrophe losses in both periods were primarily due to the Chilean earthquake. The decreases in both periods also reflect the impact of the Venezuelan devaluation in 2010. The decrease in the quarter was also the result of lower favorable net incurred losses attributable to prior years compared to 2010, primarily within Lloyd's Syndicate 4472 business.

Revenues for the three and six months ended June 30, 2011 were $2.079 billion and $4.052 billion, respectively, increases of $136 million and $142 million over the same periods in 2010. 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, 2011 was $1.899 billion and $3.685 billion, respectively, increases of $143 million and $153 million over the same periods in 2010. The increases in both periods reflect the previously mentioned growth in net written premium in 2011 and the second half of 2010, and foreign exchange, partially offset by the impact of the Venezuelan devaluation in 2010.

Net investment income for the three and six months ended June 30, 2011 was $159 million and $306 million, respectively, increases of $20 million and $24 million over the same periods in 2010. The increases in both periods reflect a higher invested asset base due to the continued investment of strong cash flow from operations, and to a lesser extent, higher yields in local operations, primarily in Latin America.

Claims, benefits and expenses for the three and six months ended June 30, 2011 were $1.937 billion and $3.964 billion, respectively, increases of $293 million and $425 million over the same periods in 2010. The increases in both periods were primarily the result of higher current year claims and claims adjustment expenses primarily driven by the organic growth in Latin America, as well as an increase in losses within Lloyd's Syndicate 4472 business resulting from catastrophe losses, as well as organic growth in its business. The catastrophe losses included the tornadoes and severe storms in the U.S. and the second quarter New Zealand earthquake in the quarter, and the Japanese earthquake and tsunami, the first quarter New Zealand earthquake, the Australian floods and Cyclone Yasi year-to-date. Also contributing to the increase in the quarter was lower favorable net incurred losses attributable to prior years compared to 2010, primarily within Lloyd's Syndicate 4472 business. Partially offsetting the increase year-to-date was the foreign exchange loss as a result of the Venezuelan devaluation in 2010 (approximately $100 million).

INTERNATIONAL	Three Months Ended June 30, 2011	2010[1]	Change (Points)	Six Months Ended June 30, 2011	2010[1]	Change (Points)
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	65.1%	68.8%	(3.7)	65.9%	69.4%	(3.5)
Underwriting expense ratio	31.4	30.0	1.4	31.5	30.3	1.2
Dividend ratio	-	-	-	-	-	-
Subtotal	96.5	98.8	(2.3)	97.4	99.7	(2.3)
Catastrophes[2]	4.5	1.9	2.6	9.2	3.5	5.7
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	-	-	-	-	-
- All other	(1.3)	(4.0)	2.7	(1.8)	(1.8)	-
Total combined ratio	99.7%	96.7%	3.0	104.8%	101.4%	3.4

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 and exclude losses related to the Company's external reinsurance assumed lines (reinsurance assumed through Lloyd's Syndicate 4472) except for the 2010 Chilean and New Zealand earthquakes, the 2011 Australian floods, Cyclone Yasi, Japanese earthquake and tsunami, New Zealand earthquakes and the tornadoes and severe storms in the U.S. 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, 2011 was 96.5% and 97.4%, respectively, decreases of 2.3 points from the same periods in 2010. The decreases in both periods were primarily driven by favorable non-catastrophe and large loss claims in Lloyd's Syndicate 4472 business, and to a lesser extent, Latin America. The increases in the underwriting expense ratio in both periods were primarily related to LIU's inland marine business resulting from a change in a reinsurance program.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three and six months ended June 30, 2011 was 99.7% and 104.8%, respectively, increases of 3.0 points and 3.4 points over the same periods in 2010. The changes reflect the impact of catastrophes, including the tornadoes and severe storms in the U.S. and second quarter New Zealand earthquake in the quarter, and the Japanese earthquake and tsunami, the first quarter New Zealand earthquake, the Australian floods and Cyclone Yasi year-to-date. Lower favorable net incurred losses attributable to prior years, primarily within Lloyd's Syndicate 4472 business, also contributed to the increase in the quarter. The increases in both periods were partially offset by the previously mentioned changes in the combined ratio.

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PERSONAL MARKETS

Overview – Personal Markets

Personal Markets sells automobile, homeowners and other types of property and casualty insurance coverage, as well as a wide range of life and annuity products, to individuals in the United States. Products are distributed through more than 2,000 licensed captive sales representatives, approximately 500 licensed telesales counselors, third-party producers (including banks for life products) and the Internet. Personal Markets' largest source of new business is through its 13,500 sponsored affinity groups (including employers, professional 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	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
Private passenger automobile	$1,154	$1,091	5.8%	$2,239	$2,116	5.8%
Homeowners and other	650	582	11.7	1,173	1,055	11.2
Individual life	76	66	15.2	143	140	2.1
Total net written premium	$1,880	$1,739	8.1%	$3,555	$3,311	7.4%

Net written premium for the three and six months ended June 30, 2011 was $1.880 billion and $3.555 billion, respectively, increases of $141 million and $244 million over the same periods in 2010.

Private passenger automobile net written premium for the three and six months ended June 30, 2011 was $1.154 billion and $2.239 billion, respectively, increases of $63 million and $123 million over the same periods in 2010. The increases reflect 2.7% growth in policies in-force as compared to June 30, 2010 as well as rate increases.

Homeowners and other net written premium for the three and six months ended June 30, 2011 was $650 million and $1.173 billion, respectively, increases of $68 million and $118 million over the same periods in 2010. The increases reflect 3.3% growth in homeowners policies in-force as compared to June 30, 2010 and rate increases. Approximately one point of the net written premium growth in both periods is attributable to the ongoing GEICO relationship, which allows GEICO to offer the Company's homeowners products to its automobile prospects and customers. The policy growth was achieved despite coastal management initiatives that reduced the business unit's coastal exposure from the prior year.

Individual life net written premium for the three and six months ended June 30, 2011 was $76 million and $143 million, respectively, increases of $10 million and $3 million over the same periods in 2010. The increases were driven by strong structured settlement sales in the quarter.

Results of Operations – Personal Markets

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
Revenues	$1,977	$1,852	6.7%	$3,891	$3,675	5.9%
PTOI before catastrophes and net incurred losses attributable to prior years	332	296	12.2%	617	552	11.8%
Catastrophes[1]	(386)	(203)	90.1	(507)	(338)	50.0
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	-	-	-	-	-
- All other	(3)	(1)	200.0	2	6	(66.7)
Pre-tax operating (loss) income	($57)	$92	(162.0%)	$112	$220	(49.1%)

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.

Pre-tax operating (loss) income for the three and six months ended June 30, 2011, was ($57) million and $112 million, respectively, versus $92 million and $220 million in the same periods in 2010. The decreases in both periods are largely driven by increased catastrophe losses related to tornadoes and severe storms in the U.S. The increase in catastrophe losses is partially offset by favorable non-catastrophe loss experience in the homeowners product line and growth in net premium earned.

Revenues for the three and six months ended June 30, 2011 were $1.977 billion and $3.891 billion, respectively, increases of $125 million and $216 million over the same periods in 2010. 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, 2011 was $1.740 billion and $3.430 billion, respectively, increases of $121 million and $222 million over the same periods in 2010. The increases in both periods reflect the premium earned associated with the changes in net written premium previously discussed.

Net investment income for the three and six months ended June 30, 2011 was $195 million and $386 million, respectively, decreases of $1 million and $2 million from the same periods in 2010. The decreases are primarily driven by lower investment yields, partially offset by 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, 2011 were $2.030 billion and $3.776 billion, respectively, increases of $269 million and $321 million over the same periods in 2010. The increases reflect higher catastrophe losses and an increase in losses and expenses consistent with business growth. These items are partially offset by favorable non-catastrophe loss trends in the homeowners product line.

PERSONAL MARKETS	Three Months Ended June 30, 2011	2010	Change (Points)	Six Months Ended June 30, 2011	2010	Change (Points)
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	61.9%	62.3%	(0.4)	62.9%	63.5%	(0.6)
Underwriting expense ratio	24.1	25.1	(1.0)	24.1	25.1	(1.0)
Dividend ratio	-	-	-	-	-	-
Subtotal	86.0	87.4	(1.4)	87.0	88.6	(1.6)
Catastrophes[1]	23.2	13.0	10.2	15.4	11.0	4.4
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	-	-	-	-	-
- All other	0.2	0.1	0.1	(0.1)	(0.2)	0.1
Total combined ratio	109.4%	100.5%	8.9	102.3%	99.4%	2.9

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, 2011 was 86.0% and 87.0%, respectively, decreases of 1.4 points and 1.6 points from the same periods in 2010. The decreases in the claims and claim adjustment expense ratio reflect improved results in the homeowners line of business. The underwriting expense ratio declined compared to the prior periods primarily as a result of premium rate increases.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three and six months ended June 30, 2011 was 109.4% and 102.3%, respectively, increases of 8.9 points and 2.9 points over the same periods in 2010. The increases reflect higher catastrophe losses related to tornadoes and severe storms in the U.S., partially offset by the changes in the combined ratio previously discussed.

COMMERCIAL MARKETS

Overview – Commercial Markets

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

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

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
Commercial Markets P&C	$916	$911	0.5%	$2,075	$1,990	4.3%
Group Benefits	195	171	14.0	402	342	17.5
Summit	123	115	7.0	289	275	5.1
Liberty Mutual Reinsurance	85	73	16.4	142	140	1.4
Other Markets	-	-	-	-	1	(100.0)
Total net written premium	$1,319	$1,270	3.9%	$2,908	$2,748	5.8%

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

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
Workers compensation	$661	$664	(0.5%)	$1,605	$1,546	3.8%
Group disability and life	195	171	14.0	402	342	17.5
General liability	141	122	15.6	310	250	24.0
Commercial multiple peril / fire	107	104	2.9	214	199	7.5
Commercial automobile	115	115	-	208	235	(11.5)
Assumed voluntary reinsurance	49	51	(3.9)	83	93	(10.8)
Other	51	43	18.6	86	83	3.6
Total net written premium	$1,319	$1,270	3.9%	$2,908	$2,748	5.8%

Net written premium for the three and six months ended June 30, 2011 was $1.319 billion and $2.908 billion, respectively, increases of $49 million and $160 million over the same periods in 2010. The increases in both periods reflect increases of $40 million and $125 million, respectively, in audit and retrospective workers compensation premium, continued penetration of the group disability and life markets, and modest workers compensation rate increases. The increase in the quarter also reflects improved retention and new business growth in general liability and new business writings in other lines. The increase year-to-date also reflects an increase in the workers compensation and general liability lines of business due to a construction account with multi-year exposures, a large disability account transfer, and an increase in commercial multi-peril/fire premium due to improved retention and new business writings. The year-to-date increase was partially offset by lower retention and fewer new business writings in commercial automobile and a decrease in assumed voluntary reinsurance premium due to a change in a program

structure. Excluding audit and retrospective premium, and the large construction account mentioned above, workers compensation net written premium in the quarter and year-to-date reflects decreases of $46 million and $153 million, respectively, as a result of disciplined underwriting in a continued competitive market.

Results of Operations – Commercial Markets

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
Revenues	$1,573	$1,490	5.6%	$3,132	$3,094	1.2%
PTOI before catastrophes and net incurred losses attributable to prior years	87	81	7.4%	168	170	(1.2%)
Catastrophes[1]	(86)	(35)	145.7	(136)	(56)	142.9
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	-	-	-	-	-
- All other[2]	5	15	(66.7)	2	24	(91.7)
Pre-tax operating income	$6	$61	(90.2%)	$34	$138	(75.4%)

1 Catastrophes include all current and prior year catastrophe losses including assessments from TWIA and exclude losses related to the Company's assumed voluntary reinsurance except for the 2010 Chilean and New Zealand earthquakes, the 2011 Australian floods, Japanese earthquake and tsunami, New Zealand earthquakes and the tornadoes and severe storms in the U.S. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

2 Net of earned premium attributable to prior years of $9 million for the three and six months ended June 30, 2011 and ($107) million and ($104) million for the comparable periods in 2010. Net of amortization of deferred gains on assumed retroactive reinsurance of $4 million for the three and six months ended June 30, 2011 and $13 million and $25 million for the comparable periods in 2010. In 2011, the Company reclassified certain retroactive reinsurance results to Corporate and Other.

PTOI for the three and six months ended June 30, 2011 was $6 million and $34 million, respectively, decreases of $55 million and $104 million from the same periods in 2010. The decreases in both periods reflect increased catastrophe losses, higher reported loss and LAE ratio in workers compensation, and lower net investment income. The decreases in both periods were partially offset by the reclassification of certain retroactive reinsurance results to Corporate and Other in 2011 and lower compensation-related and other general administrative expenses. On a year-to-date basis, the decrease was also partially offset by lower non-catastrophe related property losses.

Revenues for the three and six months ended June 30, 2011 were $1.573 billion and $3.132 billion, respectively, increases of $83 million and $38 million over the same periods in 2010. The major components of revenues are net premium earned, net investment income and fee and other revenues.

Net premium earned for the three and six months ended June 30, 2011 was $1.290 billion and $2.566 billion, respectively, increases of $95 million and $65 million over the same periods in 2010. The increases in both periods primarily reflect a decrease in the estimate of prior year earned premium on loss sensitive business recorded in the quarter ended June 30, 2010. Both periods also reflect increases in net written premium in the group disability and life markets. The increases in both periods were partially offset by lower workers compensation business in-force.

Net investment income for the three and six months ended June 30, 2011 was $217 million and $434 million, respectively, decreases of $13 million and $26 million from the same periods in 2010. The decreases in both periods primarily reflect lower investment yields, partially offset by a higher invested asset base due to the continued investment of cash flow from operations.

Fee and other revenues for the three and six months ended June 30, 2011 were $66 million and $132 million, respectively, representing no change and a decrease of $2 million versus the same periods in 2010. The year-to-date decrease primarily reflects lower commission revenues from the Company's servicing carrier operations due to lower involuntary market premium volume. As a servicing carrier, the Company

receives fee income for performing certain underwriting, claims and administrative services for all participating involuntary pool members.

Claims, benefits, and expenses for the three and six months ended June 30, 2011 were $1.567 billion and $3.098 billion, respectively, increases of $137 million and $141 million over the same periods in 2010. The increases in both periods reflect higher catastrophe losses attributable to the tornadoes and severe storms in the U.S. in the second quarter of 2011, and the Japanese earthquake and tsunami, New Zealand earthquakes, and Australian floods in the first quarter of 2011. Both periods also reflect a reduction in net incurred losses attributable to prior accident years recorded in the quarter ended June 30, 2010. The increases in both periods were partially offset by the reclassification of certain retroactive reinsurance results to Corporate and Other in 2011 and reductions in compensation-related and other general administrative expenses. Lower non-catastrophe related property losses also partially offset the year-to-date increases.

	Three Months Ended June 30,			**Six Months Ended June 30,**		
COMMERCIAL MARKETS	**2011**	**2010**	**Change (Points)**	**2011**	**2010**	**Change (Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	85.2%	84.5%	0.7	85.4%	84.2%	1.2
Underwriting expense ratio	25.4	24.3	1.1	25.1	24.2	0.9
Dividend ratio	0.5	0.7	(0.2)	0.6	0.7	(0.1)
Subtotal	111.1	109.5	1.6	111.1	109.1	2.0
Catastrophes[1]	7.9	3.2	4.7	6.3	2.5	3.8
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	-		-	-	-
- All other	(0.7)	(0.3)	(0.4)	(0.2)	(0.6)	0.4
Total combined ratio	118.3%	112.4%	5.9	117.2%	111.0%	6.2

1 Catastrophes include all current and prior year catastrophe losses including assessments from TWIA and exclude losses related to the Company's assumed voluntary reinsurance except for the 2010 Chilean and New Zealand earthquakes, the 2011 Australian floods, Japanese earthquake and tsunami, New Zealand earthquakes and the tornadoes and severe storms in the U.S. 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 both the three and six months ended June 30, 2011 was 111.1%, increases of 1.6 points and 2.0 points over the same periods in 2010. The increases in the claims and claim adjustment expense ratio in both periods primarily reflect the impact of a higher reported loss and LAE ratio in workers compensation, partially offset year-to-date by a decrease in non-catastrophe property losses. The increases in the underwriting expense ratio in both periods primarily reflect lower current year earned premium and an increase in premium and other taxes, partially offset by reductions in compensation-related and other general administrative expenses.

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, 2011 was 118.3% and 117.2%, respectively, increases of 5.9 points and 6.2 points over the same periods in 2010. The increases in both periods reflect the changes in the combined ratio previously discussed as well as higher catastrophe losses attributable to the tornadoes and severe storms in the U.S. in the second quarter of 2011, and the Japanese earthquake and tsunami, New Zealand earthquakes, and Australian floods in the first quarter of 2011. The increases in both periods also

reflect the reclassification of the amortization of deferred gains on certain retroactive reinsurance in 2011 to Corporate and Other which was more than offset in the quarter by favorable net incurred losses attributable to prior years.

CORPORATE AND OTHER

Overview – Corporate and Other

Corporate and Other includes the following significant items:

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

- Interest expense on the Company's outstanding debt.

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

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

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

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

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

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

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

- Certain retroactive reinsurance agreements previously reported within Commercial Markets.

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

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
Reinsurance, net	($132)	($138)	(4.3%)	($192)	($195)	(1.5%)
Workers compensation[1]	(38)	(1)	NM	(152)	(47)	NM
Other	2	8	(75.0)	2	10	(80.0)
Total net written premium	($168)	($131)	28.2%	($342)	($232)	47.4%

[1] Booked as billed adjustment.
NM = Not Meaningful

Net written premium for the three and six months ended June 30, 2011 was ($168) million and ($342) million, respectively, decreases of $37 million and $110 million from the same periods in 2010. The changes in both periods are primarily due to an increase in the Company's workers compensation "booked as billed" adjustment and an increase in ceded premium related to the Personal Markets homeowners quota share program, partially offset by an increase in assumed premium related to the Company's internal reinsurance program.

Results of Operations – Corporate and Other

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
Revenues	$74	($173)	NM	$197	($276)	NM
Pre-tax operating loss before catastrophes, net incurred losses attributable to prior years and private equity income	($169)	($249)	(32.1%)	($392)	($490)	(20.0%)
Catastrophes[1,2]	94	53	77.4	124	(11)	NM
Net incurred losses attributable to prior years:						
- Asbestos & environmental[3]	(1)	-	NM	(2)	(3)	(33.3)
- All other[4]	(101)	(132)	(23.5)	(30)	(129)	(76.7)
Pre-tax operating loss before private equity income [5]	(177)	(328)	(46.0)	(300)	(633)	(52.6)
Private equity income [6]	127	12	NM	337	94	NM
Pre-tax operating (loss) income	($50)	($316)	(84.2%)	$37	($539)	NM

1 Catastrophes include all current and prior year catastrophe losses including assessments from TWIA and exclude losses related to the Company's external reinsurance assumed lines (assumed voluntary reinsurance and reinsurance assumed through Lloyd's Syndicate 4472) except for the 2010 Chilean and New Zealand earthquakes, the 2011 Australian floods, Cyclone Yasi, Japanese earthquake and tsunami, New Zealand earthquakes and the tornadoes and severe storms in the U.S. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums of zero for the three and six months ended June 30, 2011 and ($1) million and $6 million for the comparable periods in 2010.
2 Catastrophes exclude the catastrophe losses ceded under the homeowners quota share agreement.
3 Net of allowance for uncollectible reinsurance decrease of $23 million for the three and six months ended June 30, 2011, versus an increase of $2 million for the comparable periods in 2010.
4 Net of amortization of deferred gains on retroactive reinsurance of $10 million and $109 million for the three and six months ended June 30, 2011 and $5 million and $10 million for the comparable periods in 2010. 2011 reflects a gain on commutation of two retroactive reinsurance contracts during the first quarter. 2011 includes certain retroactive reinsurance agreements previously reported within Commercial Markets.
5 PTOI excludes a certain intercompany reinsurance agreement related to LMAC run-off business which eliminates in consolidation.
6 Private equity income is included in net investment income in the accompanying statements of income.
NM = Not Meaningful

Pre-tax operating (loss) income for the three and six months ended June 30, 2011 was ($50) million and $37 million, respectively, versus ($316) million and ($539) in the same periods in 2010. Both periods are impacted by an increase in ceded losses and expenses associated with the homeowners quota share treaty, an increase in limited partnerships' and limited liability companies' income as a result of improved equity valuations over the same periods in 2010, and unfavorable prior year development related to LMAC run-off business in 2010 that did not recur. The change in the year is also driven by the commutation of two workers compensation retroactive reinsurance agreements and internally assumed catastrophe losses related to the Chilean earthquake that occurred in 2010 that did not recur. Partially offsetting these changes is an increase in the amount of incurred losses attributable to prior years related to pre-2005 fully insured workers compensation business and assumed voluntary reinsurance business.

Revenues for the three and six months ended June 30, 2011 were $74 million and $197 million, respectively, increases of $247 million and $473 million over the same periods in 2010. The major components of revenues include net premium earned, net investment income, net realized gains, and fee and other revenues.

Net premium earned for the three and six months ended June 30, 2011 was ($123) million and ($248) million, respectively, decreases of $5 million and $18 million from the same periods in 2010. The decreases reflect the earned premium associated with the changes in reinsurance net written premium previously discussed.

Net investment income for the three and six months ended June 30, 2011 was $97 million and $253 million, respectively, increases of $140 million and $299 million over the same periods in 2010. The increases reflect an increase in limited partnerships' and limited liability companies' income as a result of improved equity valuations.

Net realized investment gains for the three and six months ended June 30, 2011 were $49 million and $90 million, respectively, increases of $92 million and $145 million over the same periods in 2010. The increases primarily reflect the elimination of gains related to internal transfers of investments between LMAC and the remainder of the Company in 2010, which did not recur in 2011, and gains recognized from the sale of common equities in 2011.

Fee and other revenues for the three and six months ended June 30, 2011 were $51 million and $102 million, respectively, increases of $20 million and $47 million over the same periods in 2010. The increases primarily reflect higher oil and gas revenues due to increased production.

Claims, benefits and expenses for the three and six months ended June 30, 2011 were $75 million and $70 million, respectively, an increase of $12 million and a decrease of $125 million versus the same periods in 2010. The increase in the quarter reflects an increase in the amount of incurred losses attributable to prior years related to pre-2005 fully insured workers compensation business and assumed voluntary reinsurance business, partially offset by an increase in ceded losses and expenses associated with the homeowners quota share treaty and a decrease in assumed loss and expenses related to the Company's internal reinsurance program. The decrease in the year reflects an increase in ceded losses and expenses associated with the homeowners quota share treaty, internally assumed catastrophe losses related to the Chilean earthquake that occurred in 2010 that did not recur, and the commutation of two workers compensation retroactive reinsurance agreements, partially offset by an increase in the amount of incurred losses attributable to prior years related to pre-2005 fully insured workers compensation business and assumed voluntary reinsurance business.

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, 2011 and December 31, 2010:

$ in Millions	**As of June 30, 2011**		**As of December 31, 2010**	
Invested Assets by Type	**Carrying Value**	**% of Total**	**Carrying Value**	**% of Total**
Fixed maturities, available for sale, at fair value	$60,033	83.1%	$58,553	83.9%
Equity securities, available for sale, at fair value	2,155	3.0	1,733	2.5
Limited partnerships and limited liability companies	3,290	4.5	2,860	4.1
Commercial mortgage loans	1,198	1.7	1,206	1.7
Short-term investments	360	0.5	313	0.4
Other investments	479	0.7	207	0.3
Cash and cash equivalents	4,720	6.5	4,930	7.1
Total Invested Assets	$72,235	100%	$69,802	100.0%

Total invested assets as of June 30, 2011 were $72.235 billion, an increase of $2.433 billion or 3.5% over December 31, 2010. The increase reflects a valuation increase from foreign exchange including foreign exchange driven by the elimination of the Venezuelan preferential exchange rate in January 2011, an increase in the valuations of private limited partnerships, increases in unrealized gains due to decreases in interest rates and continued investments of cash flows from operations.

Fixed maturities as of June 30, 2011 were $60.033 billion, an increase of $1.480 billion or 2.5% over December 31, 2010. The increase reflects fair value increases due to a valuation increase from foreign exchange as previously discussed and increases in unrealized gains due to a decrease in interest rates and continued investments of cash flows from operations.

Equity securities available for sale as of June 30, 2011 were $2.155 billion ($1.688 billion common stock and $467 million preferred stock) versus $1.733 billion as of December 31, 2010 ($1.230 billion common

stock and $503 million preferred stock), an increase of $422 million or 24.4% over December 31, 2010. Of the $1.688 billion of common stock at June 30, 2011, $323 million relates to securities associated with non-guaranteed unit linked products where the policyholder bears the investment risk. The increase in total equity securities available for sale is consistent with a shift in the Company's tactical allocation as well as the broader equity market performance.

Investments in limited partnerships and limited liability companies as of June 30, 2011 were $3.290 billion, an increase of $430 million or 15.0% over December 31, 2010. These investments consist of traditional private equity partnerships of $2.001 billion, other partnerships (primarily energy) of $764 million, and real estate partnerships of $525 million. The increase reflects an increase in value and new investments. The Company's investments in limited partnerships and limited liability companies are long-term in nature and highly illiquid. The Company believes these investments offer the potential for superior long-term returns and are appropriate in the overall context of a diversified portfolio.

Commercial mortgage loans as of June 30, 2011 were $1.198 billion (net of $16 million of loan loss reserves or 1.3% of the outstanding loan portfolio), a decrease of $8 million or 0.7% from December 31, 2010. The decrease primarily reflects $41 million in principal repayments and an increase of $2 million to the loan loss reserve, partially offset by a $35 million increase in loans. The entire commercial loan portfolio is U.S. based. As of June 30, 2011, the average total loan size was $1.4 million and the average loan participation size was $0.4 million. The number of loans in the portfolio increased from 2,948 at December 31, 2010 to 3,020 at June 30, 2011. Approximately 90% of the loans are full or partial recourse to borrowers.

Regarding fair value measurements, as of June 30, 2011, excluding separate accounts and other assets, the Company reflected $3.997 billion (6.4%) 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, 2011, the Company reported $57.608 billion (91.7%) as level 2, consisting primarily of various fixed maturity securities. Finally, the Company reported $1.231 billion (1.9%) as level 3 (unobservable inputs), primarily consisting of international and privately held securities for which a market price is not readily observable.

As of June 30, 2011, the Company had unfunded commitments in traditional private equity partnerships, real estate, and energy and other of $1.002 billion, $406 million and $1.279 billion, respectively. As of June 30, 2011, the Company had commitments to purchase various residential mortgage-backed securities at a cost and fair value of $28 million and various corporate and municipal securities at a cost and fair value of $14 million.

As of June 30, 2011, no single issuer, excluding U.S. Treasuries, agency securities and mortgage-backed securities, accounted for more than 1.4% of invested assets.

The following table summarizes the Company's available for sale portfolio by security type as of June 30, 2011 and December 31, 2010:

$ in Millions June 30, 2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agency securities	$3,028	$204	($3)	$3,229
Mortgage and asset-backed securities:				
Residential	9,638	490	(37)	10,091
Commercial	2,260	93	(3)	2,350
Other mortgage and ABS	1,616	103	(3)	1,716
U.S. state and municipal	12,612	669	(50)	13,231
Corporate and other	23,225	1,316	(152)	24,389
Foreign government securities	5,025	106	(104)	5,027
Total fixed maturities	57,404	2,981	(352)	60,033
Common stock	1,469	272	(53)	1,688
Preferred stock	501	35	(69)	467
Total equity securities	1,970	307	(122)	2,155
Total securities available for sale	$59,374	$3,288	($474)	$62,188

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

The following table summarizes the Company's mortgage and asset-backed fixed maturity portfolio by credit quality as of June 30, 2011:

$ in Millions	**As of June 30, 2011**							
Mortgage & Asset-Backed Fixed Maturities by Credit Quality	**AAA**	**AA**	**A**	**BBB**	**BB**	**B or Lower**	**Total**	**% of Total**
SBA loans	$1,418	$-	$-	$-	$-	$-	$1,418	10.0%
GNMA residential mortgage	3,324	-	-	-	-	-	3,324	23.5
FNMA residential mortgage	3,104	-	-	-	-	-	3,104	22.0
FHLMC residential mortgage	3,034	-	-	-	-	-	3,034	21.4
Prime residential mortgage	113	32	23	-	1	232	401	2.8
Alt-A residential mortgage	57	7	-	3	-	120	187	1.3
Sub-prime residential mortgage	4	3	9	7	1	17	41	0.3
Commercial mortgage backed securities	2,184	143	11	12	-	-	2,350	16.6
Non-mortgage asset backed securities	198	27	26	29	3	15	298	2.1
Total	$13,436	$212	$69	$51	$5	$384	$14,157	100.0%
% of Total	94.9%	1.5%	0.5%	0.4%	0.0%	2.7%	100.0%	

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

The following table summarizes the Company's allocation of fixed maturities by credit quality as of June 30, 2011 and December 31, 2010:

$ in Millions	**As of June 30, 2011**		**As of December 31, 2010**	
Fixed Maturities by Credit Quality[1]	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
AAA	$23,271	38.9%	$23,169	39.6%
AA+, AA, AA-	9,934	16.5	9,749	16.6
A+, A, A-	10,771	17.9	10,350	17.7
BBB+, BBB, BBB-	9,509	15.8	9,100	15.5
BB+, BB, BB-	2,746	4.6	2,730	4.7
B+, B, B-	2,968	4.9	2,553	4.4
CCC or lower	834	1.4	902	1.5
Total fixed maturities	$60,033	100.0%	$58,553	100.0%

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

The Company's allocation to investment grade securities as of June 30, 2011 remained consistent with December 31, 2010 at 89%. Overall, the average credit quality rating stands at A+ as of June 30, 2011. The Company's holdings of below investment grade securities primarily consist of an actively managed diversified portfolio of high yield securities and loans within the domestic insurance portfolios and investments in emerging market sovereign and corporate debt primarily in support of the Company's international insurance companies.

The following table summarizes the Company's allocation of fixed maturities by maturity date as of June 30, 2011 and December 31, 2010:

$ in Millions	As of June 30, 2011		As of December 31, 2010	
Fixed Maturities by Maturity Date	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
1 year or less	$2,633	4.4%	$2,458	4.2%
Over 1 year through 5 years	17,598	29.3	16,408	28.0
Over 5 years through 10 years	13,810	23.0	13,391	22.9
Over 10 years	11,835	19.7	12,042	20.6
Mortgage and asset-backed securities	14,157	23.6	14,254	24.3
Total fixed maturities	$60,033	100.0%	$58,553	100.0%

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

Net Investment Income

The following table summarizes the Company's net investment income for the three and six months ended June 30, 2011 and 2010:

$ in Millions	Three Months Ended June 30,		Six Months Ended June 30,	
Net Investment Income	**2011**	**2010**	**2011**	**2010**
Taxable interest income	$628	$600	$1,226	$1,186
Tax-exempt interest income	118	139	235	292
Dividends	13	12	24	22
Limited partnerships and limited liability companies	128	5	338	89
Commercial mortgage loans	19	18	38	36
Other investment income	(4)	1	(2)	1
Gross investment income	902	775	1,859	1,626
Investment expenses	(28)	(38)	(70)	(79)
Net investment income	$874	$737	$1,789	$1,547

Net investment income for the three and six months ended June 30, 2011 was $874 million and $1.789 billion, respectively, increases of $137 million and $242 million over the same periods in 2010. The increases in both periods reflect an increase in limited partnerships' and limited liability companies' income of $123 million and $249 million, respectively, as a result of improved valuations. The increase in taxable interest income and the decrease in tax-exempt interest income reflect a continued shift in the Company's tactical allocation.

Net Realized Investment Gains (Losses)

The following tables summarize the Company's net realized investment gains (losses) for the three and six months ended June 30, 2011 and 2010:

$ in Millions **Net Realized Investment Gains (Losses)**	**Sales & Dispositions**	**Impairments**	**Change in Derivatives Value**	**Total**
Three Months Ended June 30, 2011:				
Fixed maturities	$32	($12)	$-	$20
Common and preferred stock	14	(1)	-	13
Other	18	-	-	18
Total	$64	($13)	$-	$51
Three Months Ended June 30, 2010:				
Fixed maturities	$116	$-	$-	$116
Common and preferred stock	2	-	-	2
Other	(7)	-	-	(7)
Total	$111	$-	$-	$111

$ in Millions **Net Realized Investment Gains (Losses)**	**Sales & Dispositions**	**Impairments**	**Change in Derivatives Value**	**Total**
Six Months Ended June 30, 2011:				
Fixed maturities	$75	($30)	$-	$45
Common and preferred stock	54	(1)	-	53
Other	29	-	-	29
Total	$158	($31)	$-	$127
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

$ in Millions	Three Months Ended June 30,		Six Months Ended June 30,	
Components of Net Realized Investment Gains (Losses)	**2011**	**2010**	**2011**	**2010**
Fixed maturities:				
Gross realized gains	$62	$123	$116	$227
Gross realized losses	(42)	(7)	(71)	(21)
Equities:				
Gross realized gains	17	4	58	12
Gross realized losses	(4)	(2)	(5)	(2)
Other:				
Gross realized gains	28	-	47	8
Gross realized losses	(10)	(7)	(18)	(18)
Total net realized investment gains	$51	$111	$127	$206

Net realized investment gains for the three and six months ended June 30, 2011 were $51 million and $127 million, respectively, decreases of $60 million and $79 million from the same periods in 2010. The decreases primarily reflect a $21 million foreign exchange loss recognized in 2011 on Venezuelan securities, combined with sales undertaken during 2010 in connection with the shift in the Company's tactical allocation that did not recur in 2011, partially offset by gains recognized from the sale of common equities in 2011.

The following table summarizes the Company's unrealized losses and fair value by security type and by duration that individual securities have been in an unrealized loss position as of June 30, 2011, that are not deemed to be other-than-temporarily impaired:

$ in Millions	Less Than 12 Months		12 Months or Longer	
Unrealized Losses & Fair Value by Security Type	**Unrealized Losses**	**Fair Value of Investments with Unrealized Losses**	**Unrealized Losses**	**Fair Value of Investments with Unrealized Losses**
U.S. Government and agency Securities	($3)	$109	$-	$-
Mortgage and asset-backed securities:				
Residential	(8)	741	(29)	322
Commercial	(1)	111	(2)	29
Other mortgage and ABS	(1)	12	(2)	19
U.S. state and municipal	(22)	909	(28)	167
Corporate and other	(70)	3,238	(82)	600
Foreign government securities	(42)	1,477	(62)	505
Total fixed maturities	(147)	6,597	(205)	1,642
Common stock	(34)	407	(19)	115
Preferred stock	-	16	(69)	319
Total equities	(34)	423	(88)	434
Total	($181)	$7,020	($293)	$2,076

Unrealized losses decreased from $591 million as of December 31, 2010 to $474 million as of June 30, 2011 primarily due to a decrease in interest rates. Unrealized losses less than 12 months decreased from $263 million at December 31, 2010 to $181 million as of June 30, 2011. Unrealized losses 12 months or longer decreased from $328 million as of December 31, 2010 to $293 million as of June 30, 2011. As of June 30, 2011, there were 468 securities that were in an unrealized loss position for 12 months or longer. The Company monitors the difference between the amortized cost and estimated fair value of debt securities to ascertain whether declines in value are temporary in nature. The Company currently does not have the intent to sell these securities and has determined it is not more likely than not that it would be required to sell these fixed income securities before they recover their fair value.

If the Company believes a decline in the value of a particular investment is temporary, the decline is recorded as an unrealized loss in policyholders' equity. If the decline is believed to be other-than-temporary, and the Company believes that it will not be able to collect all cash flows due on its fixed income securities, then the carrying value of the investment is written down to the expected cash flow amount and a realized loss is recorded as a credit impairment. A non-credit impairment loss is recognized in other comprehensive income, net of applicable taxes as the difference between expected cash flow and fair value. For the three and six months ended June 30, 2011, the Company recorded $12 million and $30 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, 2011 are temporary.

For equity securities, if the decline is believed to be other-than-temporary, the carrying value of the investment is written down to fair value and a realized loss is recorded. The gross unrealized losses recorded on equity securities at June 30, 2011 resulted primarily from decreases in quoted fair values from the dates that certain investment securities were acquired as opposed to fundamental changes in the issuer's financial performance and near-term financial prospects. As of June 30, 2011, the Company has concluded that the gross unrealized losses of equity securities as of June 30, 2011 are temporary.

LIQUIDITY AND CAPITAL RESOURCES

General

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

Net cash flows are generally invested in marketable securities while keeping a certain amount in cash and short-term investments to meet unpredictable cash obligations. The Company monitors the duration of these investments, and purchases and sales are executed with the objective of having adequate cash available to satisfy its maturing liabilities. As the Company's investment strategy focuses on overall asset and liability durations, and not specific cash flows, asset sales may be required to satisfy obligations or rebalance asset portfolios. The Company's invested assets as of June 30, 2011 (including cash and cash equivalents) totaled $72.235 billion.

Short-term debt and current maturities of long-term debt outstanding as of June 30, 2011 and December 31, 2010 were as follows:

$ in Millions	**As of June 30, 2011**	**As of December 31, 2010**
Commercial paper	$57	$-
Federal Home Loan Bank of Boston borrowings	12	-
Revolving credit facilities	-	-
Current maturities of long-term debt	1	1
Total short-term debt and current maturities of long-term debt	$70	$1

Long-term debt outstanding as of June 30, 2011 and December 31, 2010 was as follows:

$ in Millions	As of June 30, 2011	As of December 31, 2010
7.25% Notes, due 2012	$204	$204
8.00% Notes, due 2013	260	260
7.86% Medium term notes, due 2013	25	25
5.75% Notes, due 2014	500	500
7.30% Notes, due 2014	200	200
5.588% Mortgage loan due 2015	48	49
6.70% Notes, due 2016	249	249
7.00% Junior Subordinated notes, due 2067[1]	300	300
5.00% Notes, due 2021	600	-
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	19	440
7.80% Junior Subordinated notes, due 2087[2]	700	700
10.75% Junior Subordinated notes, due 2088[3]	1,250	1,250
7.697% Surplus notes, due 2097	435	435
Subtotal	5,862	5,684
Unamortized discount	(53)	(49)
Total long-term debt	$5,809	$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.

Debt Transactions and In-force Credit Facilities

On May 18, 2011, Liberty Mutual Group Inc. ("LMGI") issued Senior Notes due 2021 (the "2021 Notes") with a face amount of $600 million. Interest is payable semi-annually at a fixed rate of 5.00%. The 2021 Notes mature on June 1, 2021.

On March 21, 2011 the Company announced a tender offer for its 7.50% Senior Notes due 2036 (the "2036 Notes"). On April 15, 2011, the Company paid approximately $449 million in connection with such tender offer, including approximately $5 million in accrued and unpaid interest, to holders of the 2036 Notes tendered in such tender offer. Subsequent to the closing of the tender offer, the Company made an open market purchase of $5 million aggregate principal amount of the 2036 Notes. As a result of these transactions, the Company recorded a $40 million loss on extinguishment of debt. After completion of the tender offer and subsequent open market purchase, $19 million aggregate principal amount of the 2036 Notes remains outstanding.

On May 12, 2010, LMAC entered into a $200 million unsecured revolving credit facility for general corporate purposes with a syndicate of lenders led by Bank of America, N.A. that terminates three years following the date the facility first becomes available. On November 5, 2010, LMAC and Ohio Casualty Corporation ("OCC") entered into an Amended and Restated Revolving Credit Agreement to allow both LMAC and OCC to be joint and several co-borrowers under the facility, as well as to change certain covenants to reflect the combined financial statements of the co-borrowers. On December 20, 2010, the co-borrowers triggered the availability of the facility and established the specific terms of the financial

covenants based on the current combined financial statements (after giving effect to certain reorganization transactions). To date, no funds have been borrowed under the agreement.

On May 11, 2010, Peerless Insurance Company ("PIC") became a member of the Federal Home Loan Bank of Boston. This membership provides the Company with access to a secured asset-based borrowing with loan maturities of up to 20 years. On June 10, 2011, PIC borrowed $12 million under this agreement at a rate of .27% with a maturity date of December 9, 2011.

On March 26, 2010, LMIC entered into a $750 million three-year committed repurchase agreement. In connection with the new repurchase agreement, LMIC terminated its existing $750 million 364-day committed repurchase agreement. As of June 30, 2011, no borrowings were outstanding under the agreement.

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

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

The Company places commercial paper through a program issued by LMGI and guaranteed by LMIC. Effective December 14, 2009, the $1 billion commercial paper program was reduced to $400 million and is backed by the three-year $400 million unsecured revolving credit facility. As of June 30, 2011, there was $57 million of commercial paper 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, 2011, no borrowings were outstanding under the facility.

Interest Expense

Consolidated interest expense for the three and six months ended June 30, 2011 was $109 million and $222 million, decreases of $5 million and $8 million from the same periods in 2010. The decreases reflect the completion of the tender offer on the 7.50% 2036 Notes. 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, 2011, the Company, through its downstream subsidiary LMGI, had $5.029 billion of debt outstanding, excluding discount.

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

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

$ in Millions	**RBC Ratio[1]**		**Dividend Capacity[2]**	**Dividends Paid[3]**
RBC Ratios and Dividend Capacity	**2010**	**2009**	**2011**	**2011**
LMIC	503%	479%	$2,921	$32
LMFIC	551%	451%	$120	$58
EICOW	671%	467%	$110	$50

[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, 2011. Available dividend capacity as of June 30, 2011 is calculated as 2011 dividend capacity less dividends paid for the preceding 12 months. Dividends paid July 1, 2010 through June 30, 2011 for LMIC, LMFIC and EICOW were $65 million, $65 million and $50 million, respectively.

LMGI also has access to the following sources of funding:

- A management services agreement with LMIC pursuant to which LMGI is entitled to collect certain costs plus a management fee for services rendered by LMGI employees.
- Investment management agreements with affiliated entities pursuant to which LMGI is entitled to recover 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, 2011, LCS recorded $87 million and $181 million in pre-tax income.
- Approximately $80 million of annual dividends related to non-redeemable perpetual preferred stock issuances by LMIC and LMFIC.

Statutory Surplus

Statutory surplus as regards policyholders for the combined operations of LMIC and its U.S. affiliates, including international branches, was $15.892 billion and $16.039 billion at June 30, 2011 and December 31, 2010, respectively. The decrease in surplus primarily reflects a net loss of $629 million (the sum of earnings from the Company's 58 domestic insurance companies and dividends from subsidiaries), other changes in surplus of ($328) million, primarily related to dividends to stockholders, an increase in non-admitted assets and a decrease in net deferred tax assets, partially offset by affiliated and unaffiliated unrealized gains of $589 million and $221 million, respectively.

CRITICAL ACCOUNTING POLICIES

Critical Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The Company's principal estimates include (1) unpaid claims and claim adjustment expense reserves, including asbestos and environmental liability reserves and loss sensitive premium attributable to prior years; (2) reinsurance recoverables and associated uncollectible reserves; (3) fair value determination and other-than-temporary impairments of the investment portfolio; (4) deferred acquisition costs; (5) valuation of goodwill and intangible assets; and (6) deferred income tax valuation allowance.

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

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

Adoption of New Accounting Standards

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

Future Adoption of New Accounting Standards

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

None of the other accounting standards issued for the second quarter of 2011 will have a material financial statement 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, 2011 for further discussion of the Company's significant accounting policies.

Unpaid Claims and Claim Adjustment Expenses

Reserves for property-casualty unpaid claims and claim adjustment expenses were $48.878 billion and $48.059 billion as of June 30, 2011 and December 31, 2010, respectively. The increase resulted primarily from large losses due to the 2011 Australian floods, Cyclone Yasi, Japanese earthquake and tsunami, New Zealand earthquakes and the tornadoes and severe storms in the U.S.

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 $79 million from $1.190 billion as of December 31, 2010 to $1.111 billion as of June 30, 2011.

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

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

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

Reinsurance Recoverables

The Company reported reinsurance recoverables of $13.334 billion and $14.310 billion at June 30, 2011 and December 31, 2010, respectively, net of allowance for doubtful accounts of $357 million and $393 million, respectively. The decrease is primarily due to the commutations of two excess of loss retroactive reinsurance agreements. Included in these balances are $979 million and $965 million of paid recoverables and $12.712 billion and $13.738 billion of unpaid recoverables, respectively.

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

As part of its reinsurance security oversight, the Company has established a Reinsurance Credit Committee that meets quarterly to monitor and review the credit quality of the existing reinsurance portfolio, discuss emerging trends in the reinsurance marketplace, and ensure that the current portfolio of reinsurance is in compliance with the committee's security standards. The committee is directly responsible for establishing the rating, collateral, and diversification requirements governing the Company's purchase and use of reinsurance.

Approximately 95% and 94% of the Company's reinsurance recoverable balance, net of collateral held and including voluntary and involuntary pools and associations, was placed with reinsurers rated A- or better from A.M. Best and Standard & Poor's, respectively, at June 30, 2011. Collateral held against outstanding gross reinsurance recoverable balances was $4.624 billion and $5.359 billion at June 30, 2011 and December 31, 2010, respectively.

The remaining 5% and 6% of the Company's net reinsurance recoverable balance is well diversified. No single reinsurer rated B++ or below by A.M. Best or below A- by Standard & Poor's accounts for more than 2% of GAAP equity. In addition, the average net reinsurance recoverable balance from individual reinsurers rated below A- or not rated by A.M. Best and Standard & Poor's was approximately $1 million as of June 30, 2011.

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured business. The Company evaluates and monitors the financial condition of its reinsurers under voluntary reinsurance arrangements to minimize its exposure to significant losses from reinsurer insolvencies. The Company reports its reinsurance recoverables net of an allowance for estimated uncollectible reinsurance recoverables. The allowance is based upon the Company's ongoing review of amounts outstanding, length of collection periods, changes in reinsurer credit standing and other relevant factors. Accordingly, the establishment of reinsurance recoverables and the related allowance for uncollectible reinsurance recoverables is also an inherently uncertain process involving estimates. Changes in these estimates could result in additional charges to the consolidated statement of operations.

The Company is party to retroactive reinsurance arrangements where a significant portion of the consideration was retained on a "funds held" basis and interest is credited on the balance at a weighted average rate of approximately 7.8% annually. These contracts resulted in deferred gains (including experience related profit accruals of $113 million) that are amortized into income using the effective interest method over the estimated settlement periods. At June 30, 2011, and December 31, 2010, deferred gains related to these reinsurance arrangements were $333 million and $550 million, respectively, and are included in other liabilities within the consolidated balance sheets. Interest credited to the funds held balances for the three and six months ended June 30, 2011 was $19 million and $49 million, respectively, as compared to $30 million and $59 million for the three and six months ended June 30, 2010, respectively. Deferred gain amortization for the three and six months ended June 30, 2011 was $10 million and $109 million, respectively, as compared to $17 million and $34 million for the three and six months ended June 30, 2010, respectively. Reinsurance recoverables related to these transactions, including experience related profit accruals, were $1.234 billion and $1.947 billion at June 30, 2011, and December 31, 2010, respectively. Effective March 31, 2011, the Company commuted two workers compensation excess of loss retroactive reinsurance agreements. The commutations, which represent the complete and final settlement and discharge of all present and future obligations between the parties arising out of the agreements, resulted in a gain to the Company of $54 million, net of tax.

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

In 2007, the Company entered into a multi-year property catastrophe reinsurance agreement with Mystic Re II Ltd. ("Mystic Re II"), a Cayman Islands domiciled reinsurer, to provide $150 million of reinsurance coverage for the Company and its affiliates in the event of a Northeast and/or Florida hurricane event. In the first quarter 2009, the Company entered into another agreement with Mystic Re II to provide $225 million of additional reinsurance coverage for the Company in the event of a U.S. hurricane or earthquake event. The reinsurance agreements are collateralized through a trust and guarantee received by Mystic Re II from the issuance of catastrophe bonds and provides coverage for hurricane or earthquake-related losses based on industry insured losses as reported by Property Claim Services along with company specific losses on the event. The Company has not recorded any recoveries under these programs. Mystic Re II does not have any other reinsurance in force. The 2007 reinsurance agreement terminated on June 7, 2011. Since no recoveries were recorded under this program, the associated collateral was released.

Impairment Losses on Investments

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

The Company reviews fixed income, public equity securities and private equity and private equity co-investment securities for impairment on a quarterly basis. Securities are reviewed for both quantitative and qualitative considerations including, but not limited to: (a) the extent of the decline in fair value below book value, (b) the duration of the decline, (c) significant adverse changes in the financial condition or near term prospects of the investment or issuer, (d) significant change in the business climate or credit ratings of the issuer, (e) general market conditions and volatility, (f) industry factors, and (g) the past impairment of the security holding or the issuer. For fixed maturity securities that the Company does not intend to sell or for which it is more likely than not that the Company would not be required to sell before an anticipated recovery in value, the Company separates impairments into credit loss and non-credit loss components. The determination of the credit loss component of the impairment charge is based on management's best estimate of the present value of the cash flows expected to be collected from the debt security compared to its amortized cost and is reported as part of net realized gains . The non-credit component, the residual difference between the credit impairment component and the fair value, is recognized in other comprehensive income . The factors considered in making an evaluation for credit versus non-credit other-than-temporary impairment include the following: (a) failure of the issuer of the security to make scheduled interest or principal payments (including the payment structure of the debt security and the likelihood the issuer will be able to make payments that increase in the future), (b) performance indicators of the underlying assets in the security (including default and delinquency rates), (c) vintage, (d) geographic concentration, (e) industry analyst reports, sector credit ratings, and volatility of the security's fair value. In addition, the Company's accounting policy for other-than-temporary impairment recognition requires an other-than-temporary impairment charge be recorded when it is determined the security will be sold or it is more likely than not that the Company will be required to sell the security before recovery of the security's amortized cost basis (all debt securities and certain preferred equity securities) or the

Company's intent and ability to hold certain equity securities for a period of time that is sufficient to allow for any anticipated recovery in fair value.

Subsequent to quarter end, the Company has not recognized any additional material other-than-temporary impairments.

Variable Interest Entities

The Company invests in energy, private equity and real estate limited partnerships and other entities subject to variable interest entity ("VIE") analysis under the VIE subsections of ASC 810, *Consolidation*. The Company analyzes each investment to determine whether it is a VIE, and if so, whether the Company is the primary beneficiary or a significant interest holder based on a qualitative and quantitative assessment. The Company evaluates the design of the entity, the risks to which the entity was designed to expose the variable interest holder and the extent of the Company's control of and variable interest in the VIE. As of June 30, 2011 the Company has no VIEs in which it is the primary beneficiary.

The Company has variable interests in VIEs for which it is not the primary beneficiary and accounts for these VIEs under the equity method in accordance with ASC 323, *Investments-Equity Method and Joint Ventures*. The VIEs are principally private equity limited partnerships in which the Company has invested as a passive limited partner. The partnerships were deemed to be VIEs because the equity holders as a group lack the power to direct the activities that most significantly impact the respective entity's economic performance. The VIEs generate variability primarily from investment portfolio performance and that variability is passed to equity holders. For these VIEs, the Company absorbs a portion, but not majority, of this variability. The carrying value of assets was $201 million and $94 million as of June 30, 2011 and December 31, 2010, respectively and the Company's maximum exposure to loss was $289 million and $123 million as of June 30, 2011 and December 31, 2010, respectively for unconsolidated VIEs in which the Company has a significant variable interest. The assets are included in Other Investments on the consolidated balance sheets. Maximum exposure to loss includes the carrying value and unfunded commitment of the VIE. There is no recourse provision to the general credit of the Company for any VIE beyond the full amount of the Company's loss exposure.

Derivatives

The Company has a Derivative Use Policy, which has been approved by the Investment Committee of each domestic insurance subsidiary that has entered into derivative transactions. Pursuant to the policy, the Company may enter into derivative transactions. As of June 30, 2011, the Company had no material derivative agreements in place.

Deferred Acquisition Costs

Total deferred policy acquisition costs were $2.891 billion and $2.771 billion as of June 30, 2011 and December 31, 2010, respectively. Deferred policy acquisition costs are costs that vary with, and are primarily related to, the acquisition of new and renewal insurance and investment contracts that are deferred and amortized over the respective policy terms. Deferred acquisition costs are reviewed annually for recoverability. Investment income is considered in the recoverability assessment. For short-duration insurance contracts, acquisition costs include commissions, underwriting expenses, and premium taxes and assessments. For long-duration insurance contracts, these costs include first year commissions in excess of annual renewal commissions and variable sales, underwriting and administrative expenses.

Goodwill

Goodwill assets were $4.770 billion and $4.750 billion as of June 30, 2011 and December 31, 2010, respectively. Goodwill is tested for impairment at least annually (performed in the fourth quarter) using a two-step process. The first step is performed to identify potential impairment and, if necessary, the second step is performed for the purpose of measuring the amount of impairment, if any. Impairment is recognized

only if the carrying amount is not recoverable from the discounted cash flows using a "market" rate and is measured as the difference between the carrying amount and the implied fair value. No impairments were recorded in 2011 or 2010. Other changes in the carrying amount of goodwill are primarily caused by foreign currency translation adjustments and adjustments to valuation allowances for acquired tax losses.

Deferred Income Taxes

The net deferred tax asset was $679 million and $796 million as of June 30, 2011 and December 31, 2010, respectively, net of a valuation allowance of $159 million and $153 million, respectively. The net decrease in the Company's net deferred income tax asset is primarily due to the change in net unrealized capital gains and losses on certain investments. The increase in the valuation allowance is primarily due to net operating losses generated in certain foreign subsidiaries where there is uncertainty in the timing and amount of the realization of those losses. Management believes it is more likely than not that the Company's net deferred income tax asset will be realized based on the Company's ability and the 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 differences between the financial statement and tax bases of assets and liabilities at the enacted tax rates. The principal assets and liabilities giving rise to such differences are net unrealized capital gains and losses on certain investments, insurance loss reserves, unearned premiums, deferred policy acquisition costs, employee benefits, net operating losses and intangible assets.

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

Balance at December 31, 2010	$321
Additions based on tax positions related to current year	1
Additions for tax positions of prior years	32
Reductions for positions in the prior year	(1)
Settlements	(17)
Balance at June 30, 2011	$336

Included in the tabular roll forward of unrecognized tax benefits is interest in the amount of $83 million and $84 million as of June 30, 2011 and December 31, 2010, respectively.

Included in the balance at June 30, 2011, is $163 million related to tax positions that would impact the effective tax rate.

The Company recognizes interest and penalties related to unrecognized tax benefits in Federal, state, and foreign income tax expense. During the three months ended June 30, 2011 and 2010, the Company recognized ($4) million and less than $1 million in interest and penalties, respectively. During the six months ended June 30, 2011 and 2010, the Company recognized less than $1 million and $3 million in interest and penalties, respectively. The Company had approximately $80 million of interest and penalties accrued as of both June 30, 2011 and December 31, 2010, respectively.

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

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

Other

On April 28, 2011, affiliates of the Company and Anglo Irish Bank Corporation Limited entered into a joint venture for the purchase of assets and assumption of liabilities of Quinn Insurance Limited (Under Administration) ("QIL") related to QIL's marketing and underwriting of insurance policies in the Republic of Ireland. The Company is the indirect owner of 51% of the joint venture. The joint venture has also agreed to provide services related to QIL's business in the United Kingdom. Subject to receipt of the necessary regulatory and court approvals to complete the transaction, which are expected in the third or fourth quarter of 2011, the Company will fund its capital commitment of approximately €102 million to the joint venture.

About the Company

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

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

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

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