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

Quarter Ended September 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 nine months ended September 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, September 30, 2011 Unaudited Consolidated Financial Statements and Third 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 September 30, 2011 - Consolidated Results of Operations

- Revenues for the three months ended September 30, 2011 were $8.767 billion, an increase of $380 million or 4.5% over the same period in 2010.
- Net written premium for the three months ended September 30, 2011 was $8.155 billion, an increase of $435 million or 5.6% over the same period in 2010.
- Pre-tax operating loss before private equity income for the three months ended September 30, 2011 was $341 million versus $513 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 September 30, 2011 was $203 million versus $658 million of pre-tax operating income in the same period in 2010.
- Net loss for the three months ended September 30, 2011 was $111 million versus $567 million of net income in the same period in 2010.
- Cash flows from operations for the three months ended September 30, 2011 were $572 million, a decrease of $137 million or 19.3% from the same period in 2010.
- The consolidated combined ratio before catastrophes[1] , net incurred losses attributable to prior years[2] and current accident year re-estimation for the three months ended September 30, 2011 was 97.9%, no change from the same period in 2010. Including the impact of catastrophes, net incurred losses attributable to prior years and current accident year re-estimation, the Company's combined ratio for the three months ended September 30, 2011 increased 11.4 points to 110.5%.

Nine Months Ended September 30, 2011 - Consolidated Results of Operations

- Revenues for the nine months ended September 30, 2011 were $25.708 billion, an increase of $1.065 billion or 4.3% over the same period in 2010.
- Net written premium for the nine months ended September 30, 2011 was $23.461 billion, an increase of $1.249 billion or 5.6% over the same period in 2010.
- Pre-tax operating loss before private equity income for the nine months ended September 30, 2011 was $494 million versus $1.000 billion of pre-tax operating income before private equity income in the same period in 2010.
- Pre-tax operating loss for the nine months ended September 30, 2011 was $18 million versus $1.234 billion of pre-tax operating income in the same period in 2010.

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[1]Catastrophes include all current and prior year catastrophe losses excluding 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 Chile and New Zealand earthquakes, 2011 Australia floods, Cyclone Yasi, Japan earthquake and tsunami, New Zealand earthquakes, Hurricane Irene and the tornadoes and other 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 nine months ended September 30, 2011 was $81 million, a decrease of $1.021 billion or 92.6% from the same period in 2010.

- Cash flows from operations for the nine months ended September 30, 2011 were $1.480 billion, a decrease of $274 million or 15.6% from the same period in 2010.

- The consolidated combined ratio before catastrophes and net incurred losses attributable to prior years for the nine months ended September 30, 2011 was 96.7%, a decrease of 0.9 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 nine months ended September 30, 2011 increased 6.6 points to 108.6%.

Financial Condition as of September 30, 2011

- Total assets were $115.562 billion as of September 30, 2011, an increase of $3.212 billion over December 31, 2010.

- Policyholders' equity was $17.469 billion as of September 30, 2011, an increase of $491 million over December 31, 2010.

Subsequent Events

- On October 17, 2011, Liberty Mutual Group Inc. ("LMGI") entered into a five-year $750 million unsecured revolving credit facility which terminates on October 17, 2016. To date, no funds have been borrowed under the facility. In connection with the new facility, LMGI terminated its three-year $400 million unsecured revolving credit facility.

- The Company places commercial paper through a program issued by LMGI and guaranteed by Liberty Mutual Insurance Company ("LMIC"). Effective October 17, 2011, the $400 million commercial paper program was increased to $750 million and is backed by the five-year $750 million unsecured revolving credit facility.

- In October 2011, the Company repurchased an additional $69 million of the 10.75% Junior Subordinated Notes due 2088 at a loss of $14 million. The Company continues to evaluate market conditions and may periodically effect transactions in its debt, subject to applicable limitations.

- On October 24, 2011, Liberty Mutual Agency Corporation ("LMAC") and Ohio Casualty Corporation terminated their $200 million unsecured revolving credit facility.

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, integration and other acquisition related costs 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 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 (loss) 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 Venezuela 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 Venezuela 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 included a 2.60 Bolivar Fuerte (BsF) rate to 1 U.S. dollar for food and other items as mandated by the Venezuela government, and a 4.30 BsF to 1 U.S. dollar rate for all other items.

On December 30, 2010, the Venezuela 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, 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.

Overview – Consolidated

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
Private passenger automobile	$2,897	$2,710	6.9%	$8,060	$7,646	5.4%
Workers compensation	947	1,003	(5.6)	2,847	2,964	(3.9)
Homeowners	912	826	10.4	2,429	2,207	10.1
Commercial multiple peril / fire	674	640	5.3	1,910	1,834	4.1
International local businesses (excluding private passenger automobile)	531	455	16.7	1,570	1,306	20.2
Lloyd's Syndicate 4472	355	292	21.6	1,184	945	25.3
Commercial automobile	389	389	-	1,128	1,186	(4.9)
General liability	326	337	(3.3)	978	934	4.7
LIU[1] third party	208	160	30.0	628	483	30.0
Group disability and life	193	173	11.6	595	515	15.5
Surety	196	203	(3.4)	577	566	1.9
LIU inland marine program	104	172	(39.5)	299	497	(39.8)
LIU first party	76	71	7.0	276	231	19.5
Individual life	94	54	74.1	241	194	24.2
Assumed voluntary reinsurance	40	45	(11.1)	123	138	(10.9)
Other[2]	213	190	12.1	616	566	8.8
Total NWP[3]	$8,155	$7,720	5.6%	$23,461	$22,212	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 September 30,			Nine Months Ended September 30,		
$ in Millions	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
LMAC	$2,834	$2,825	0.3%	$7,979	$8,001	(0.3%)
International	2,063	1,841	12.1	6,103	5,330	14.5
Personal Markets	2,024	1,848	9.5	5,579	5,159	8.1
Commercial Markets	1,404	1,337	5.0	4,312	4,085	5.6
Corporate and Other	(170)	(131)	29.8	(512)	(363)	41.0
Total net written premium (NWP)	$8,155	$7,720	5.6 %	$23,461	$22,212	5.6%
Foreign exchange effect on growth			0.9%			0.8%
NWP growth excluding foreign exchange			4.7%			4.8 %

Major drivers of net written premium growth were as follows:

$ in Millions	Three Months Ended September 30, 2011	2010	$ Change	Points Attribution	Nine Months Ended September 30, 2011	2010	$ Change	Points Attribution
LMG NWP	$8,155	$7,720	$435	5.6	$23,461	$22,212	$1,249	5.6
Components of Growth:								
International local businesses (excluding foreign exchange)	1,295	1,152	143	1.9	3,703	3,259	444	2.0
Lloyd's Syndicate 4472	355	292	63	0.8	1,184	945	239	1.1
-Domestic homeowners	1,111	1,006	105	1.4	2,954	2,686	268	1.2
-Homeowners quota share	(199)	(180)	(19)	(0.2)	(525)	(479)	(46)	(0.2)
Total Homeowners	912	826	86	1.2	2,429	2,207	222	1.0
Foreign exchange	68	-	68	0.9	167	-	167	0.8
Group disability and life	193	173	20	0.3	595	515	80	0.4
Domestic personal auto	2,080	2,013	67	0.9	5,788	5,693	95	0.4
Individual life	94	54	40	0.5	241	194	47	0.2
Surety	196	203	(7)	(0.1)	577	566	11	-
Other commercial lines	2,962	3,007	(45)	(0.8)	8,777	8,833	(56)	(0.3)
Total LMG NWP	$8,155	$7,720	$435	5.6	$23,461	$22,212	$1,249	5.6

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

$ in Millions	Three Months Ended September 30, 2011	2010	Change	Nine Months Ended September 30, 2011	2010	Change
U.S.	$6,324	$6,158	2.7%	$18,052	$17,699	2.0%
International[1]	1,831	1,562	17.2	5,409	4,513	19.9
Total NWP	$8,155	$7,720	5.6%	$23,461	$22,212	5.6%

1 Excludes domestically written business in the International SBU.

Net written premium for the three and nine months ended September 30, 2011 was $8.155 billion and $23.461 billion, respectively, increases of $435 million and $1.249 billion over the same periods in 2010. Significant changes by major line of business include:

- Private passenger automobile net written premium increased $187 million and $414 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, organic growth in International's local businesses, primarily in Latin America, and higher rate, retention and new business in LMAC. The increases were 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 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.
- Workers compensation net written premium decreased $56 million and $117 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 rate gains. A significant construction account in Commercial Markets also partially offsets the year-to-date decrease. Excluding the impact of audit and retrospectively rated premium, workers compensation net written premium declined 9.6% year-to-date.

- Homeowners net written premium increased $86 million and $222 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 $76 million and $264 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 $63 million and $239 million in the quarter and year-to-date, respectively. The increases primarily reflect new business growth. Additionally year-to-date reflects higher reinstatement premiums in 2011.
- LIU third party increased $48 million and $145 million in the quarter and year-to-date, respectively. The increases primarily reflect new business from casualty and specialty casualty lines.
- Group disability and life net written premium increased $20 million and $80 million in the quarter and year-to-date, respectively. The increases in both periods reflect higher retention and new business writings. The year-to-date increase also reflects a large disability account transfer in the first quarter.
- LIU inland marine program net written premium decreased $68 million and $198 million in the quarter and year-to-date, respectively. The decreases reflect higher ceded premium due to a change in a reinsurance program.
- LIU first party increased $5 million and $45 million in the quarter and year-to-date, respectively. The increases in both periods reflect U.S. oil and gas business with higher renewals from increased participation and higher values.

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 September 30, 2011	2010	Change	Nine Months Ended September 30, 2011	2010	Change
Revenues	$8,767	$8,387	4.5%	$25,708	$24,643	4.3 %
Pre-tax operating income ("PTOI") before catastrophes, net incurred losses attributable to prior years, current accident year re-estimation, private equity income and Venezuela devaluation	$570	$524	8.8%	$1,999	$1,687	18.5%
Catastrophes[1,2]	(596)	(133)	NM	(2,447)	(1,060)	130.8
Net incurred losses attributable to prior years:						
- Asbestos & environmental[3]	(339)	(2)	NM	(341)	(5)	NM
- All other[4]	72	88	(18.2)	295	175	68.6
Venezuela devaluation	-	66	(100.0)	-	203	(100.0)
Current accident year re-estimation[5]	(48)	(30)	60.0	-	-	-
Pre-tax operating (loss) income before private equity income	(341)	513	NM	(494)	1,000	NM
Private equity income[6]	138	145	(4.8)	476	234	103.4
Pre-tax operating (loss) income	(203)	658	NM	(18)	1,234	NM
Net realized gains	41	86	(52.3)	168	292	(42.5)
Loss on extinguishment of debt	(37)	-	NM	(77)	-	NM
Income tax benefit (expense)	88	(177)	NM	8	(424)	NM
Net (loss) income	($111)	$567	NM	$81	$1,102	(92.6%)
Cash flows from operations	$572	$709	(19.3%)	$1,480	$1,754	(15.6%)

1 Catastrophes include all current and prior year catastrophe losses excluding 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 Chile and New Zealand earthquakes, 2011 Australia floods, Cyclone Yasi, Japan earthquake and tsunami, New Zealand earthquakes, Hurricane Irene and the tornadoes and other severe storms in the U.S. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

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

3 Includes $295 million of strengthening of asbestos related reserves in connection with a ground-up reserve study.

4 Net of earned premium attributable to prior years of zero and $16 million for the three and nine months ended September 30, 2011 and ($8) million and ($103) million for the same periods in 2010. Net of amortization of deferred gains on retroactive reinsurance of $16 million and $129 million for the three and nine months ended September 30, 2011 and $18 million and $53 million for the same periods in 2010. 2011 reflects a gain on commutation of two retroactive reinsurance contracts during the first quarter.

5 Re-estimation of the current accident year loss reserves for the six months ended June 30, 2011 and June 30, 2010.

6 Private equity income is included in net investment income in the consolidated statements of operations.

NM = Not Meaningful

Pre-tax operating loss for the three and nine months ended September 30, 2011 was $203 million and $18 million, respectively, versus $658 million and $1.234 billion of pre-tax operating income in the same periods in 2010. The decreases in both periods reflect higher catastrophe losses, increases in asbestos and environmental reserves and a gain on Venezuela devaluation in 2010 that did not recur, partially offset by earned premium growth. Year-to-date was also offset by private equity income due to improved market valuations and a gain on the commutation of two workers compensation retroactive reinsurance agreements.

Revenues for the three and nine months ended September 30, 2011 were $8.767 billion and $25.708 billion, respectively, increases of $380 million and $1.065 billion over the same periods in 2010. The major components of revenues are net premium earned, net investment income, net realized gains, and fee and other revenues.

Net premium earned for the three and nine months ended September 30, 2011 was $7.629 billion and $22.232 billion, respectively, increases of $397 million and $876 million over the same periods in 2010. The increases in both periods primarily reflect personal lines increases due to rate increases and growth in policies in-force in Personal Markets and LMAC, as well as organic growth in International, primarily Latin America, and to a lesser extent, Asia, partially offset by the impact of the Venezuela devaluation in 2010. The year-to-date increase also reflects a decrease in the estimate of prior year earned premium on loss sensitive business recorded in the nine months ended September 30, 2010.

Net investment income for the three and nine months ended September 30, 2011 was $881 million and $2.670 billion, respectively, a decrease of $3 million and an increase of $239 million versus the same periods in 2010. The increase year-to-date primarily reflects an increase in limited partnerships' and limited liability companies' income of $242 million as a result of improved valuations.

Net realized gains for the three and nine months ended September 30, 2011 were $41 million and $168 million, respectively, decreases of $45 million and $124 million from the same periods in 2010. The decreases primarily reflect a foreign exchange loss recognized in 2011 on Venezuela securities, combined with sales undertaken during 2010 in connection with the shift in the Company's tactical allocation that did not recur in 2011. The decreases were partially offset by gains recognized in connection with the 2009 sale of certain Commercial Market policy renewal rights and gains associated with the Company's investments in the energy sector.

Fee and other revenues for the three and nine months ended September 30, 2011 were $216 million and $638 million, respectively, increases of $31 million and $74 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 increased production.

Claims, benefits and expenses for the three and nine months ended September 30, 2011 were $8.929 billion and $25.558 billion, respectively, increases of $1.286 billion and $2.441 billion over the same periods in 2010. The increases in both periods reflect higher catastrophe losses related to Hurricane Irene ($323 million) and other severe storms in the U.S., increases in asbestos and environmental reserves and increases in losses and expenses consistent with business growth, partially offset by lower non-catastrophe related losses. The increase year-to-date also reflects higher catastrophe losses related to the Australia floods, Cyclone Yasi, Japan earthquake and tsunami, New Zealand earthquakes and significant tornado and wind events that were largely concentrated in the Midwest and Southeast in the first half of 2011. The year-to-date increase was partially offset by a foreign exchange loss as a result of the Venezuela devaluation in 2010 that did not recur and a gain on the commutation of two workers compensation retroactive reinsurance agreements.

Income tax benefit (expense) for the three and nine months ended September 30, 2011 was $89 million and $8 million, respectively, versus ($177) million and ($424) million for the same periods in 2010. The Company's effective tax rate for the three and nine months ended September 30, 2011 was 45% and (10%) compared to 24% and 28% for the same periods in 2010. The 45% effective tax rate for the three months ended September 30, 2011 resulted from recording a tax benefit on losses reported for this period as compared to the tax provision reported in the same period in 2010. The decrease in the effective tax rate for the nine months ended September 30, 2010 to 2011 was due to lower pre-tax income in 2011, and favorable resolution of tax contingencies, partially offset by a decrease in foreign tax benefits and intra-period tax accounting adjustments while 2010 included a $55 million one-time charge 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 nine months ended September 30, 2011, was ($111) million and $81 million, respectively, versus $567 million and $1.102 billion in the same periods in 2010.

Cash flows from operations for the three and nine months ended September 30, 2011 were $572 million and $1.480 billion, respectively, decreases of $137 million and $274 million from the same periods in

2010. The decreases in both periods reflect higher catastrophe paid losses partially offset by premium collections. Year-to-date also reflects increased ceded premium payments and higher federal tax payments due to a refund in 2010 that did not recur in 2011, partially offset by the settlement of a large asbestos claim that was paid in 2010 that did not recur in 2011.

	Three Months Ended September 30,			Nine Months Ended September 30,		
CONSOLIDATED	**2011**	**2010[1]**	**Change (Points)**	**2011**	**2010[1]**	**Change (Points)**
Combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation						
Claims and claim adjustment expense ratio	69.1%	69.1%	-	68.0%	69.0%	(1.0)
Underwriting expense ratio	28.7	28.6	0.1	28.5	28.4	0.1
Dividend ratio	0.1	0.2	(0.1)	0.2	0.2	-
Subtotal	97.9	97.9	-	96.7	97.6	(0.9)
Catastrophes[2,3]	8.1	1.9	6.2	11.5	5.2	6.3
Net incurred losses attributable to prior years:						
- Asbestos & environmental	4.8	-	4.8	1.8	-	1.8
- All other	(1.0)	(1.1)	0.1	(1.4)	(0.8)	(0.6)
Current accident year re-estimation[4]	0.7	0.4	0.3	-	-	-
Total combined ratio[5]	110.5%	99.1%	11.4	108.6%	102.0%	6.6

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

2 Catastrophes include all current and prior year catastrophe losses excluding 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 Chile and New Zealand earthquakes, 2011 Australia floods, Cyclone Yasi, Japan earthquake and tsunami, New Zealand earthquakes, Hurricane Irene and the tornadoes and other severe storms in the U.S. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

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

4 Re-estimation of the current accident year loss reserves for the six months ended June 30, 2011 and June 30, 2010.

5 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, net incurred losses attributable to prior years and current accident year re-estimation for the three and nine months ended September 30, 2011 was 97.9% and 96.7%, respectively, no change in the quarter and a decrease of 0.9 points for the year. The year-to-date decrease in the claims and claim adjustment expense ratio reflects favorable non-catastrophe results in Lloyd’s Syndicate 4472 business 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, higher non-catastrophe related commercial property losses and a higher claims and claim adjustment expense ratio in workers compensation.

Including the impact of catastrophes, net incurred losses attributable to prior years and current accident year re-estimation, the total combined ratio for the three and nine months ended September 30, 2011 was 110.5% and 108.6%, respectively, increases of 11.4 points and 6.6 points over the same periods in 2010. The increases in both periods reflect higher catastrophe losses related to Hurricane Irene and other severe storms in the U.S. and an increase in asbestos and environmental reserves. The increase in the quarter also

reflects a re-estimation of current accident year losses in LMAC for commercial liability lines. The increase year-to-date also reflects higher catastrophe losses related to the Australia floods, Cyclone Yasi, Japan earthquake and tsunami, New Zealand earthquakes and the tornadoes and other severe storms in the U.S. 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 a 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.

LMAC net written premium by segment was as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
Personal	$1,449	$1,401	3.4%	$3,936	$3,896	1.0%
Commercial	1,151	1,189	(3.2)	3,350	3,446	(2.8)
Surety	195	204	(4.4)	571	567	0.7
Corporate and Other[1]	39	31	25.8	122	92	32.6
Total net written premium	$2,834	$2,825	0.3%	$7,979	$8,001	(0.3%)

1 Includes run-off operations and internal reinsurance.

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
Commercial Lines						
Commercial multiple peril	$495	$498	(0.6%)	$1,409	$1,413	(0.3%)
Commercial automobile	268	278	(3.6)	802	831	(3.5)
Workers compensation	234	246	(4.9)	673	694	(3.0)
Surety	196	203	(3.4)	577	566	1.9
General liability	117	123	(4.9)	355	373	(4.8)
Other	71	72	(1.4)	217	217	-
Subtotal	$1,381	$1,420	(2.7)	$4,033	$4,094	(1.5)
Personal Lines						
Private passenger automobile	$858	$863	(0.6)	$2,323	$2,425	(4.2)
Homeowners	465	422	10.2	1,259	1,146	9.9
Other	130	120	8.3	364	336	8.3
Subtotal	$1,453	$1,405	3.4	$3,946	$3,907	1.0
Total net written premium	$2,834	$2,825	0.3%	$7,979	$8,001	(0.3%)

Net written premium for the three and nine months ended September 30, 2011 was $2.834 billion and $7.979 billion, respectively, an increase of $9 million and a decrease of $22 million versus the same periods in 2010.

Commercial lines net written premium for the three and nine months ended September 30, 2011 was $1.381 billion and $4.033 billion, respectively, decreases of $39 million and $61 million from the same periods in 2010. The decreases reflect a decline in new business premium due to a more competitive market environment and lower average policy size, partially offset by modest rate increases and favorable audit premiums. The change in the year was also partially offset by growth in the surety segment largely due to increased contract premiums.

Personal lines net written premium for the three and nine months ended September 30, 2011 was $1.453 billion and $3.946 billion, respectively, increases of $48 million and $39 million over the same periods in 2010. The increases reflect higher rates, new business and retention, partially offset by 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.

Results of Operations – Liberty Mutual Agency Corporation

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
Revenues	$2,884	$2,969	(2.9%)	$8,553	$8,822	(3.0%)
PTOI before catastrophes, net incurred losses attributable to prior years, current accident year re-estimation and private equity income (loss)	$308	$344	(10.5%)	$991	$1,035	(4.3%)
Catastrophes[1]	(345)	(63)	NM	(1,340)	(472)	183.9
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	-	-	-	-	-
- All other[2]	60	57	5.3	244	186	31.2
Current accident year re-estimation[3]	(33)	(15)	120.0	-	-	-
Pre-tax operating (loss) income before private equity income (loss)	(10)	323	NM	(105)	749	NM
Private equity income (loss)[4]	1	1	-	2	(4)	NM
Pre-tax operating (loss) income[5]	($9)	$324	NM	($103)	$745	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 nine months ended September 30, 2011 and zero and $10 million for the same periods in 2010.
3 Re-estimation of the current accident year loss reserves for the six months ended June 30, 2011 and June 30, 2010.
4 Private equity income (loss) is included in net investment income in the consolidated statements of operations.
5 2010 PTOI excludes a certain intercompany reinsurance agreement related to run-off business which eliminates in consolidation.
NM = Not Meaningful

Pre-tax operating loss for the three and nine months ended September 30, 2011 was $9 million and $103 million, respectively, versus pre-tax operating income of $324 million and $745 million for the same periods in 2010. The decreases in both periods were driven by higher catastrophe losses, including the impact of Hurricane Irene in the quarter. Year-to-date was also impacted by significant tornado and wind events largely concentrated in the Midwest and Southeast in the first half of the year. 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 decreases were partially offset by favorable loss trends in the surety line of business. The quarter was further impacted by unfavorable loss trends in the commercial property lines of business. The decreases year-to-date were partially offset by favorable loss trends in the private passenger automobile line of business and lower variable compensation costs.

Revenues for the three and nine months ended September 30, 2011 were $2.884 billion and $8.553 billion, respectively, decreases of $85 million and $269 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 nine months ended September 30, 2011 was $2.645 billion and $7.815 billion, respectively, increases of $33 million and $90 million over the same periods in 2010. The increases in both periods reflect increased personal lines rate, retention, and new business.

Net investment income for the three and nine months ended September 30, 2011 was $203 million and $613 million, respectively, decreases of $12 million and $65 million from the same periods in 2010. The decreases in both periods were primarily driven by lower fixed maturity income due to the strategic realignment of the investment portfolio in 2010, an overall lower asset base in 2011 due to intercompany dividends paid during 2010 and lower investment yields.

Net realized gains for the three and nine months ended September 30, 2011 were $11 million and $53 million, respectively, decreases of $106 million and $291 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 sales of fixed income securities in 2010 related to the strategic realignment of the portfolio which did not recur in 2011.

Claims, benefits and expenses for the three and nine months ended September 30, 2011 were $2.882 billion and $8.603 billion, respectively, increases of $354 million and $747 million over the same periods in 2010. The increases in both periods were 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 surety line of business. The quarter was further impacted by unfavorable loss trends in the commercial property lines of business. The increases in the year were partially offset by favorable loss trends in the private passenger automobile line of business and lower variable compensation costs.

	Three Months Ended September 30,			**Nine Months Ended September 30,**		
LIBERTY MUTUAL AGENCY CORPORATION	**2011**	**2010**	**Change (Points)**	**2011**	**2010**	**Change (Points)**
Combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation						
Claims and claim adjustment expense ratio	63.3%	63.4%	(0.1)	62.6%	63.2%	(0.6)
Underwriting expense ratio	31.2	30.1	1.1	31.1	30.7	0.4
Dividend ratio	0.2	0.3	(0.1)	0.2	0.2	-
Subtotal	94.7	93.8	0.9	93.9	94.1	(0.2)
Catastrophes[1]	13.0	2.4	10.6	17.1	6.1	11.0
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	-	-	-	-	-
- All other	(2.3)	(2.1)	(0.2)	(3.1)	(2.3)	(0.8)
Current accident year re-estimation[2]	1.3	0.6	0.7	-	-	-
Total combined ratio[3]	106.7%	94.7%	12.0	107.9%	97.9%	10.0

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 Re-estimation of the current accident year loss reserves for the six months ended June 30, 2011 and June 30, 2010.
3 2010 combined ratio excludes a certain intercompany reinsurance agreement related to run-off business which eliminates in consolidation.

The LMAC combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation for the three and nine months ended September 30, 2011 was 94.7% and 93.9%, respectively, an increase of 0.9 points and a decrease of 0.2 points versus the same periods in 2010. The decreases in the claims and claim adjustment expense ratio for both periods reflect favorable loss trends in the private passenger automobile and surety lines of business, partially offset by higher commercial lines liability losses. The quarter was further impacted by unfavorable loss trends in the commercial property lines of business. The increase in the underwriting expense ratio for both periods is primarily driven by higher deferred acquisition costs amortizing in 2011. The increase in the underwriting expense ratio year-to-date was partially offset by lower variable compensation costs.

Including the impact of catastrophes, net incurred losses attributable to prior years and current accident year re-estimation, the total combined ratio for the three and nine months ended September 30, 2011 was 106.7% and 107.9%, respectively, increases of 12.0 points and 10.0 points over the same periods in 2010. The increases in both periods are primarily driven by higher catastrophe losses due to Hurricane Irene in the quarter and significant tornado and wind events that were largely concentrated in the Midwest and

Southeast in the first half of 2011. The favorable net incurred losses attributable to prior years in both periods were primarily driven by favorable trends in the surety line of business. The quarter was also impacted by a current accident year re-estimation for commercial liability lines.

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 September 30,			Nine Months Ended September 30,		
$ in Millions	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
International Local Businesses Total	$1,342	$1,149	16.8%	$3,809	$3,228	18.0%
- Latin America	916	769	19.1	2,564	2,110	21.5
- Europe	327	299	9.4	962	899	7.0
- Asia	99	81	22.2	283	219	29.2
Liberty International Underwriters	721	692	4.2	2,294	2,102	9.1
Total net written premium (NWP)	$2,063	$1,841	12.1%	$6,103	$5,330	14.5%
Foreign exchange effect on growth			3.7%			3.1%
NWP growth excluding foreign exchange			8.4%			11.4%

International's major product lines are as follows:

(1) Local businesses: personal, primarily private passenger automobile, and commercial insurance;
(2) Lloyd's Syndicate 4472: 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 September 30,			Nine Months Ended September 30,		
$ in Millions	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
Local businesses – private passenger auto	$817	$696	17.4%	$2,270	$1,948	16.5%
Local businesses – all other[1]	525	453	15.9	1,539	1,280	20.2
Lloyd's Syndicate 4472	343	290	18.3	1,116	899	24.1
LIU inland marine program	104	172	(39.5)	299	497	(39.8)
LIU third party	197	156	26.3	599	475	26.1
LIU first party	65	60	8.3	229	194	18.0
LIU other	12	14	(14.3)	51	37	37.8
Total net written premium	$2,063	$1,841	12.1%	$6,103	$5,330	14.5%

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

Net written premium for the three and nine months ended September 30, 2011 was $2.063 billion and $6.103 billion, respectively, increases of $222 million and $773 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 China and Thailand. Europe also had organic growth, excluding Spain whose decline is a result of its continuing economic challenges. The increases in both periods also reflect growth in LIU, primarily driven by Lloyd's Syndicate 4472 business due to new business growth, and to a lesser extent, LIU third party due to new business from casualty and specialty 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 $69 million and $167 million in the quarter and year-to-date, respectively). Year-to-date also reflects higher reinstatement premiums in 2011.

Results of Operations – International

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2011**	**2010[1]**	**Change**	**2011**	**2010[1]**	**Change**
Revenues	$2,181	$2,007	8.7%	$6,233	$5,917	5.3%
PTOI before catastrophes, net incurred losses attributable to prior years and Venezuela devaluation	$160	$143	11.9%	$528	$398	32.7%
Catastrophes[2]	19	(7)	NM	(318)	(120)	165.0
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	-	-	-	-	-
- All other[3]	(8)	15	NM	57	72	(20.8)
Venezuela devaluation	-	66	(100.0)	-	203	(100.0)
Pre-tax operating income	$171	$217	(21.2%)	$267	$553	(51.7%)

1 Effective January 1, 2010, the Venezuela 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 excluding losses related to the Company's external reinsurance assumed lines (reinsurance assumed through Lloyd's Syndicate 4472) except for 2010 Chile and New Zealand earthquakes, 2011 Australia floods, Cyclone Yasi, Japan earthquake and tsunami, 2011 New Zealand earthquakes, Hurricane Irene and the tornadoes and other 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 zero and $7 million for the three and nine months ended September 30, 2011 and zero and ($1) million for the same periods in 2010.

NM = Not Meaningful

Pre-tax operating income for the three and nine months ended September 30, 2011 was $171 million and $267 million, respectively, decreases of $46 million and $286 million from the same periods in 2010. The decreases in both periods reflect foreign exchange (approximately $68 million and $135 million in the quarter and year-to-date, respectively), primarily driven by the impact of the Venezuela devaluation in 2010. The decrease year-to-date reflects increased catastrophe losses related to the Australia floods, Cyclone Yasi, Japan earthquake and tsunami, New Zealand earthquakes and the tornadoes and other severe storms in the U.S., and lower favorable net incurred losses attributable to prior years compared to 2010, primarily within Lloyd's Syndicate 4472 business.

Revenues for the three and nine months ended September 30, 2011 were $2.181 billion and $6.233 billion, respectively, increases of $174 million and $316 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 nine months ended September 30, 2011 was $1.983 billion and $5.668 billion, respectively, increases of $169 million and $322 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 last quarter of 2010, partially offset by the impact of the Venezuela devaluation in 2010.

Net investment income for the three and nine months ended September 30, 2011 was $165 million and $471 million, respectively, increases of $21 million and $45 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 flows from operations, and to a lesser extent, higher yields in local operations, primarily in Latin America. The year-to-date increase was partially offset by the impact of foreign exchange.

Claims, benefits and expenses for the three and nine months ended September 30, 2011 were $2.016 billion and $5.980 billion, respectively, increases of $243 million and $668 million over the same periods in 2010. The increases in both periods were primarily the result of higher current year claims and claim adjustment expenses primarily driven by the organic growth in Latin America and Lloyd's Syndicate 4472 business, partially offset by a decrease in LIU's inland marine business due to the previously mentioned reinsurance program change. The increase in the quarter also reflects unfavorable net incurred losses attributable to prior years, offset by favorable catastrophe loss development within Lloyd's Syndicate 4472 business. The year-to-date increase is also the result of catastrophe losses related to the Australia floods, Cyclone Yasi, Japan earthquake and tsunami, New Zealand earthquakes and the tornadoes and other severe storms in the U.S., and lower favorable net incurred losses attributable to prior years compared to 2010, primarily within Lloyd's Syndicate 4472 business. Partially offsetting the year-to-date increase was the foreign exchange loss as a result of the Venezuela devaluation in 2010 (approximately $100 million).

INTERNATIONAL	Three Months Ended September 30, 2011	2010[1]	Change (Points)	Nine Months Ended September 30, 2011	2010[1]	Change (Points)
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	67.6%	68.1%	(0.5)	66.5%	68.9%	(2.4)
Underwriting expense ratio	31.6	30.9	0.7	31.5	30.5	1.0
Dividend ratio	-	-	-	-	-	-
Subtotal	99.2	99.0	0.2	98.0	99.4	(1.4)
Catastrophes[2]	(1.0)	0.4	(1.4)	5.7	2.4	3.3
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	-	-	-	-	-
- All other	0.4	(0.9)	1.3	(1.0)	(1.4)	0.4
Total combined ratio	98.6%	98.5%	0.1	102.7%	100.4%	2.3

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

2 Catastrophes include all current and prior year catastrophe losses excluding losses related to the Company's external reinsurance assumed lines (reinsurance assumed through Lloyd's Syndicate 4472) except for 2010 Chile and New Zealand earthquakes, 2011 Australia floods, Cyclone Yasi, Japan earthquake and tsunami, 2011 New Zealand earthquakes, Hurricane Irene and the tornadoes and other 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 nine months ended September 30, 2011 was 99.2% and 98.0%, respectively, an increase of 0.2 points and a decrease of 1.4 points versus the same periods in 2010. The changes in both periods reflect decreases in the claims and claim adjustment expense ratio, offset to different degrees by increases in the underwriting expense ratio within LIU's inland marine business due to the previously mentioned reinsurance program change. Also impacting the quarter is unfavorable claims and claim adjustment expenses in select countries in Latin America. The year-to-date impact is primarily driven by favorable non-catastrophe claims and claim adjustment expenses within Lloyd's Syndicate 4472 business.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three and nine months ended September 30, 2011 was 98.6% and 102.7%, respectively, increases of 0.1 points and 2.3 points over the same periods in 2010. The increase in the quarter reflects the previously mentioned changes in the normalized combined ratio, as well as unfavorable net incurred losses attributable to prior years, offset by favorable current and prior year catastrophe loss development within Lloyd's Syndicate 4472 business. The increase year-to-date reflects the impact of catastrophe losses, including the Australia floods, Cyclone Yasi, Japan earthquake and tsunami, New Zealand earthquakes, and the tornadoes and other severe storms in the U.S., and to a lesser extent, lower favorable net incurred losses attributable to prior years, primarily within Lloyd's Syndicate 4472 business.

PERSONAL MARKETS

Overview – Personal Markets

Personal Markets sells automobile, homeowners and other types of property and casualty insurance coverage, as well as a wide range of life and annuity products, to individuals in the United States. Products are distributed through more than 2,000 licensed captive sales representatives, approximately 500 licensed telesales counselors, third-party producers (including banks for life products) and the Internet. Personal Markets' largest source of new business is through its 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 September 30,			Nine Months Ended September 30,		
$ in Millions	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
Private passenger automobile	$1,219	$1,150	6.0%	$3,458	$3,266	5.9%
Homeowners and other	712	644	10.6	1,885	1,699	10.9
Individual life	93	54	72.2	236	194	21.6
Total net written premium	$2,024	$1,848	9.5%	$5,579	$5,159	8.1%

Net written premium for the three and nine months ended September 30, 2011 was $2.024 billion and $5.579 billion, respectively, increases of $176 million and $420 million over the same periods in 2010.

Private passenger automobile net written premium for the three and nine months ended September 30, 2011 was $1.219 billion and $3.458 billion, respectively, increases of $69 million and $192 million over the same periods in 2010. The increases reflect 2.9% growth in policies in-force as compared to September 30, 2010 as well as rate increases.

Homeowners and other net written premium for the three and nine months ended September 30, 2011 was $712 million and $1.885 billion, respectively, increases of $68 million and $186 million over the same periods in 2010. The increases reflect 3.5% growth in homeowners policies in-force as compared to September 30, 2010 as well as rate increases. 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 nine months ended September 30, 2011 was $93 million and $236 million, respectively, increases of $39 million and $42 million over the same periods in 2010. The increases were driven by strong structured settlement sales.

Results of Operations – Personal Markets

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
Revenues	$2,045	$1,891	8.1%	$5,936	$5,566	6.6%
PTOI before catastrophes and net incurred losses attributable to prior years	$301	$280	7.5%	$918	$832	10.3%
Catastrophes[1]	(297)	(66)	NM	(804)	(404)	99.0
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	-	-	-	-	-
- All other	16	3	NM	18	9	100.0
Pre-tax operating income	$20	$217	(90.8%)	$132	$437	(69.8%)

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.

NM= Not Meaningful

Pre-tax operating income for the three and nine months ended September 30, 2011, was $20 million and $132 million, respectively, decreases of $197 million and $305 million from the same periods in 2010. The decreases in both periods are largely driven by increased catastrophe losses related to Hurricane Irene and other severe storms in the U.S. These items are partially offset by growth in net premium earned and favorable non-catastrophe loss experience in the homeowners product line.

Revenues for the three and nine months ended September 30, 2011 were $2.045 billion and $5.936 billion, respectively, increases of $154 million and $370 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 nine months ended September 30, 2011 was $1.807 billion and $5.237 billion, respectively, increases of $148 million and $370 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 nine months ended September 30, 2011 was $197 million and $583 million, respectively, decreases of $6 million and $8 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 flows from operations.

Claims, benefits and expenses for the three and nine months ended September 30, 2011 were $2.025 billion and $5.801 billion, respectively, increases of $345 million and $666 million over the same periods in 2010. The increases principally reflect higher catastrophe losses and an increase in losses and expenses consistent with business growth.

PERSONAL MARKETS	Three Months Ended September 30, 2011	2010	Change (Points)	Nine Months Ended September 30, 2011	2010	Change (Points)
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	64.3%	64.4%	(0.1)	63.3%	63.9%	(0.6)
Underwriting expense ratio	23.4	24.3	(0.9)	23.9	24.8	(0.9)
Dividend ratio	-	-	-	-	-	-
Subtotal	87.7	88.7	(1.0)	87.2	88.7	(1.5)
Catastrophes[1]	17.3	4.1	13.2	16.2	8.6	7.6
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	-	-	-	-	-
- All other	(1.0)	(0.2)	(0.8)	(0.5)	(0.2)	(0.3)
Total combined ratio	104.0%	92.6%	11.4	102.9%	97.1%	5.8

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

The Personal Markets combined ratio before catastrophes and net incurred losses attributable to prior years for the three and nine months ended September 30, 2011 was 87.7% and 87.2%, respectively, decreases of 1.0 point and 1.5 points from the same periods in 2010. The decreases in the claims and claim adjustment expense ratios are largely driven by improved results in the homeowners line of business. The underwriting expense ratios 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 nine months ended September 30, 2011 was 104.0% and 102.9%, respectively, increases of 11.4 points and 5.8 points over the same periods in 2010. The increases reflect higher catastrophe losses related to Hurricane Irene and several severe storms in the U.S., partially offset by the changes in the combined ratio previously discussed and higher favorable net incurred losses attributable to prior years in 2011 compared to 2010.

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 September 30,			Nine Months Ended September 30,		
$ in Millions	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
Commercial Markets P&C	$1,024	$1,005	1.9%	$3,099	$2,995	3.5%
Group Benefits	193	173	11.6	595	515	15.5
Summit	96	76	26.3	385	351	9.7
Liberty Mutual Reinsurance	91	83	9.6	233	223	4.5
Other Markets	-	-	-	-	1	(100.0)
Total net written premium	$1,404	$1,337	5.0%	$4,312	$4,085	5.6%

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
Workers compensation	$724	$710	2.0%	$2,329	$2,256	3.2%
Group disability and life	193	173	11.6	595	515	15.5
General liability	153	162	(5.6)	463	412	12.4
Commercial multiple peril / fire	118	98	20.4	332	297	11.8
Commercial automobile	123	107	15.0	331	342	(3.2)
Assumed voluntary reinsurance	40	52	(23.1)	123	145	(15.2)
Other	53	35	51.4	139	118	17.8
Total net written premium	$1,404	$1,337	5.0%	$4,312	$4,085	5.6%

Net written premium for the three and nine months ended September 30, 2011 was $1.404 billion and $4.312 billion, respectively, increases of $67 million and $227 million over the same periods in 2010. The increases in both periods reflect increases of $32 million and $157 million, respectively, in audit and retrospective workers compensation premium, along with rate gains in workers compensation. In addition, the increases in both periods reflect higher retention and new business writings in the group disability and life, commercial multi-peril/fire, and other lines of business. The increase in the quarter also reflects improved retention and new business growth in commercial automobile. The increase year-to-date also reflects a construction account with multi-year exposures in the workers compensation and general liability lines of business and a large disability account transfer. The increases in both periods were partially offset by the non-renewal of a large general liability account and decreases in assumed voluntary reinsurance premium due to a change in a program structure. The year-to-date increase was also partially offset by

lower retention and fewer new business writings in commercial automobile. Excluding audit and retrospective premium and the construction account mentioned above, workers compensation net written premium in the quarter and year-to-date reflects decreases of $27 million and $180 million, respectively, as a result of disciplined underwriting in a continued competitive market.

Results of Operations – Commercial Markets

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
Revenues	$1,596	$1,571	1.6%	$4,728	$4,665	1.4%
PTOI before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation	79	76	3.9%	232	231	0.4%
Catastrophes[1]	(43)	(13)	NM	(179)	(69)	159.4
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	-	-	-	-	-
- All other[2]	5	16	(68.8)	7	40	(82.5)
Current accident year re-estimation[3]	(15)	(15)	-	-	-	-
Pre-tax operating income	$26	$64	(59.4%)	$60	$202	(70.3%)

1 Catastrophes include all current and prior year catastrophe losses excluding losses related to the Company's assumed voluntary reinsurance except for the 2010 Chile and New Zealand earthquakes, 2011 Australia floods, Japan earthquake and tsunami, New Zealand earthquakes, Hurricane Irene and the tornadoes and other 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 $7 million and $16 million for the three and nine months ended September 30, 2011 and ($8) million and ($112) million for the same periods in 2010. Net of amortization of deferred gains on assumed retroactive reinsurance of $1 million and $5 million for the three and nine months ended September 30, 2011 and $13 million and $38 million for the same periods in 2010. In 2011, the Company reclassified certain retroactive reinsurance results to Corporate and Other.

3 Re-estimation of the current accident year loss reserves for the six months ended June 30, 2011 and June 30, 2010.

NM = Not Meaningful

Pre-tax operating income for the three and nine months ended September 30, 2011 was $26 million and $60 million, respectively, decreases of $38 million and $142 million from the same periods in 2010. The decreases in both periods reflect increased catastrophe losses, higher non-catastrophe related property losses, 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 general expenses.

Revenues for the three and nine months ended September 30, 2011 were $1.596 billion and $4.728 billion, respectively, increases of $25 million and $63 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 nine months ended September 30, 2011 was $1.315 billion and $3.881 billion, respectively, increases of $40 million and $105 million over the same periods in 2010. The increases in both periods reflect increases in net written premium in the group disability and life markets, partially offset by lower workers compensation business in-force. The year-to-date increase also reflects a decrease in the estimate of prior year earned premium on loss sensitive business recorded in the nine months ended September 30, 2010.

Net investment income for the three and nine months ended September 30, 2011 was $218 million and $652 million, respectively, decreases of $13 million and $39 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 flows from operations.

Fee and other revenues for the three and nine months ended September 30, 2011 were $63 million and $195 million, respectively, decreases of $2 million and $4 million from the same periods in 2010. The decreases in both periods primarily reflect 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 nine months ended September 30, 2011 were $1.570 billion and $4.668 billion, respectively, increases of $63 million and $204 million over the same periods in 2010. The increases in both periods reflect higher catastrophe losses attributable to Hurricane Irene and other severe storms in the U.S. in the third quarter of 2011, and the Japan earthquake and tsunami, New Zealand earthquakes, Australia floods, and the tornadoes and other severe storms in the U.S. in the first half of 2011. The increases in both periods also reflect lower favorable net incurred losses attributable to prior accident years. The increases in both periods were partially offset by the reclassification of certain retroactive reinsurance results to Corporate and Other in 2011.

	Three Months Ended September 30,			Nine Months Ended September 30,		
COMMERCIAL MARKETS	**2011**	**2010**	**Change (Points)**	**2011**	**2010**	**Change (Points)**
Combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation						
Claims and claim adjustment expense ratio	86.1%	83.9%	2.2	86.1%	84.5%	1.6
Underwriting expense ratio	25.1	25.0	0.1	25.1	24.5	0.6
Dividend ratio	0.5	0.5	-	0.6	0.6	-
Subtotal	111.7	109.4	2.3	111.8	109.6	2.2
Catastrophes[1]	3.9	1.1	2.8	5.5	2.0	3.5
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	-	-	-	-	-
- All other	(0.5)	(1.4)	0.9	(0.3)	(0.8)	0.5
Current accident year re-estimation[2]	1.4	1.3	0.1	-	-	-
Total combined ratio	116.5%	110.4%	6.1	117.0%	110.8%	6.2

1 Catastrophes include all current and prior year catastrophe losses excluding losses related to the Company's assumed voluntary reinsurance except for the 2010 Chile and New Zealand earthquakes, 2011 Australia floods, Japan earthquake and tsunami, New Zealand earthquakes, Hurricane Irene and the tornadoes and other severe storms in the U.S. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

2 Re-estimation of the current accident year loss reserves for the six months ended June 30, 2011 and June 30, 2010.

The Commercial Markets combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation for the three and nine months ended September 30, 2011 was 111.7% and 111.8%, respectively, increases of 2.3 points and 2.2 points over the same periods in 2010. The increases in the claims and claim adjustment expense ratio in both periods reflect higher non-catastrophe related property losses. The year-to-date ratio also includes the impact of a higher workers compensation claims and claim adjustment expense ratio. The increases in the underwriting expense ratio in both periods primarily reflect an increase in premium and other taxes, partially offset by a decrease in general administrative expenses. The year-to-date increase is also impacted by lower current accident year earned premium.

Including the impact of catastrophes, net incurred losses attributable to prior years, and current accident year re-estimation, primarily in workers compensation, the total combined ratio for the three and nine

months ended September 30, 2011 was 116.5% and 117.0%, respectively, increases of 6.1 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 Hurricane Irene and other severe storms in the U.S. in the third quarter of 2011, and the Japan earthquake and tsunami, New Zealand earthquakes, Australia floods, and the tornadoes and other severe storms in the U.S. in the first half 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.

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").

- Effective July 1, 2011, Corporate and Commercial Markets novated their reinsurance treaty that applied to certain pre-2005 workers compensation claims and entered into two new agreements including: 1. certain pre-2011 voluntary workers compensation claims and, 2. certain pre-2011 involuntary workers compensation claims.

- 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 premium on workers compensation contracts on the "booked as billed" method. Commercial Markets reports workers compensation written premium 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 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 September 30,			Nine Months Ended September 30,		
$ in Millions	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
Reinsurance, net	($162)	($168)	(3.6%)	($354)	($363)	(2.5%)
Workers compensation[1]	(11)	36	NM	(163)	(11)	NM
Other	3	1	200.0	5	11	(54.5)
Total net written premium	($170)	($131)	29.8%	($512)	($363)	41.0%

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

Net written premium for the three and nine months ended September 30, 2011 was ($170) million and ($512) million, respectively, decreases of $39 million and $149 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 September 30,			Nine Months Ended September 30,		
$ in Millions	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
Revenues	$61	($51)	NM	$258	($327)	NM
Pre-tax operating loss before catastrophes, net incurred losses attributable to prior years and private equity income	($278)	($319)	(12.9%)	($670)	($809)	(17.2%)
Catastrophes[1,2]	70	16	NM	194	5	NM
Net incurred losses attributable to prior years:						
- Asbestos & environmental[3]	(339)	(2)	NM	(341)	(5)	NM
- All other[4]	(1)	(3)	(66.7)	(31)	(132)	(76.5)
Pre-tax operating loss before private equity income [5]	(548)	(308)	77.9	(848)	(941)	(9.9)
Private equity income [6]	137	144	(4.9)	474	238	99.2
Pre-tax operating loss	($411)	($164)	150.6%	($374)	($703)	(46.8%)

1 Catastrophes include all current and prior year catastrophe losses excluding 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 Chile and New Zealand earthquakes, the 2011 Australia floods, Cyclone Yasi, Japan earthquake and tsunami, New Zealand earthquakes, Hurricane Irene and the tornadoes and other 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 nine months ended September 30, 2011 and zero and $6 million for the same periods in 2010.
2 Catastrophes reflect the catastrophe losses ceded under the homeowners quota share agreement.
3 Includes $295 million of strengthening of asbestos related reserves in connection with a ground-up reserve study.
4 Net of earned premium attributable to prior years of ($7) million for the three and nine months ended September 30, 2011 and zero for the same periods in 2010. Net of amortization of deferred gains on retroactive reinsurance of $15 million and $124 million for the three and nine months ended September 30, 2011 and $5 million and $15 million for the same 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 Pre-tax operating loss 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 consolidated statements of operations.
NM = Not Meaningful

Pre-tax operating loss for the three and nine months ended September 30, 2011 was $411 million and $374 million, respectively, an increase of $247 million and a decrease of $329 million versus the same periods in 2010. Both periods are impacted by an increase in asbestos and environmental reserves and an increase in the amount of incurred losses attributable to prior years related to pre-2011 workers compensation business assumed from Commercial Markets, partially offset by an increase in ceded losses and expenses associated with the homeowners quota share treaty. The change in the quarter is also driven by a change in losses related to a certain reinsurance agreement and internally assumed losses related to internal reinsurance programs. The change year-to-date is also driven by a gain on the commutation of two workers compensation retroactive reinsurance agreements, internally assumed catastrophe losses related to the Chile earthquake in 2010, unfavorable prior year development related to LMAC run-off business in 2010, and an increase in limited partnerships' and limited liability companies' income as a result of improved equity valuations over the same period in 2010.

Revenues for the three and nine months ended September 30, 2011 were $61 million and $258 million, respectively, increases of $112 million and $585 million over the same periods in 2010. The major components of revenues are net premium earned, net investment income, net realized gains, and fee and other revenues.

Net premium earned for the three and nine months ended September 30, 2011 was ($121) million and ($369) million, respectively, an increase of $7 million and a decrease of $11 million versus the same periods in 2010. Both periods reflect the earned premium associated with the changes in reinsurance net written premium previously discussed and a change in ceded premium related to a reinsurance agreement.

Net investment income for the three and nine months ended September 30, 2011 was $98 million and $351 million, respectively, increases of $7 million and $306 million over the same periods in 2010. The increase year-to-date reflects an increase in limited partnerships' and limited liability companies' income as a result of improved equity valuations.

Net realized gains for the three and nine months ended September 30, 2011 were $36 million and $126 million, respectively, increases of $78 million and $223 million over the same periods in 2010. The increases primarily reflect gains recognized in connection with the 2009 sale of certain Commercial Market policy renewal rights, gains associated with the Company's investments in the energy sector and eliminations of gains related to internal transfers of investments between LMAC and the remainder of the Company that occurred in 2010, which did not recur in 2011.

Fee and other revenues for the three and nine months ended September 30, 2011 were $48 million and $150 million, respectively, increases of $20 million and $67 million over the same periods in 2010. The increases in both periods primarily reflect higher oil and gas revenues due to increased production.

Claims, benefits and expenses for the three and nine months ended September 30, 2011 were $436 million and $506 million, respectively, increases of $281 million and $156 million over the same periods in 2010. The increases in both periods primarily reflect an increase in asbestos and environmental reserves and an increase in the amount of incurred losses attributable to prior years related to pre-2011 workers compensation business assumed from Commercial Markets, partially offset by an increase in ceded losses and expenses associated with the homeowners quota share treaty and internally assumed losses related to internal reinsurance programs. Partially offsetting the increase year-to-date were internally assumed catastrophe losses related to the Chile earthquake in 2010 and a gain on the commutation of two workers compensation retroactive reinsurance agreements.

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 September 30, 2011 and December 31, 2010:

$ in Millions	**As of September 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	$60,364	83.3%	$58,553	83.9%
Equity securities, available for sale, at fair value	1,843	2.5	1,733	2.5
Limited partnerships and limited liability companies	3,452	4.8	2,860	4.1
Commercial mortgage loans	1,193	1.6	1,206	1.7
Short-term investments	343	0.5	313	0.4
Other investments	480	0.7	207	0.3
Cash and cash equivalents	4,766	6.6	4,930	7.1
Total Invested Assets	$72,441	100%	$69,802	100.0%

Total invested assets as of September 30, 2011 were $72.441 billion, an increase of $2.639 billion or 3.8% over December 31, 2010. The increase reflects an increase in foreign exchange driven by the elimination of the Venezuela 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 September 30, 2011 were $60.364 billion, an increase of $1.811 billion or 3.1% over December 31, 2010. The increase reflects fair value increases due to a valuation increase from foreign exchange as previously discussed, 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 September 30, 2011 were $1.843 billion ($1.467 billion common stock and $376 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 $110 million or 6.3% over December 31, 2010. Of the $1.467 billion of common stock at September 30, 2011, $258 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.

Investments in limited partnerships and limited liability companies as of September 30, 2011 were $3.452 billion, an increase of $592 million or 20.7% over December 31, 2010. These investments consist of traditional private equity partnerships of $2.111 billion, other partnerships (primarily energy) of $799 million, and real estate partnerships of $542 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 September 30, 2011 were $1.193 billion (net of $19 million of loan loss reserves or 1.6% of the outstanding loan portfolio), a decrease of $13 million or 1.1% from December 31, 2010. The decrease primarily reflects $79 million in principal repayments and an increase of $5 million to the loan loss reserve, partially offset by a $71 million increase in loans. The entire commercial loan portfolio is U.S. based. As of September 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 3,153 at September 30, 2011. Approximately 91% of the loans are full or partial recourse to borrowers.

Regarding fair value measurements, as of September 30, 2011, excluding separate accounts and other assets, the Company reflected $3.783 billion (6.0%) 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 September 30, 2011, the Company reported $57.935 billion (92.2%) as level 2, consisting primarily of various fixed maturity securities. Finally, the Company reported $1.123 billion (1.8%) as level 3 (unobservable inputs), primarily consisting of international and privately held securities for which a market price is not readily observable.

As of September 30, 2011, the Company had unfunded commitments in traditional private equity partnerships, real estate, and energy and other of $950 million, $341 million and $1.303 billion, respectively. As of September 30, 2011, the Company had commitments to purchase various residential mortgage-backed securities at a cost of $98 million and fair value of $100 million.

As of September 30, 2011, no single issuer, excluding U.S. Treasuries, agency securities and mortgage-backed securities, accounted for more than 1.3% of invested assets.

The following tables summarize the Company's available for sale portfolio by security type as of September 30, 2011 and December 31, 2010:

$ in Millions **September 30, 2011**	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. government and agency securities	$2,968	$314	($-)	$3,282
Mortgage and asset-backed securities:				
Residential	9,411	565	(39)	9,937
Commercial	2,204	73	(5)	2,272
Other mortgage and ABS	1,631	130	(3)	1,758
U.S. state and municipal	12,559	1,061	(26)	13,594
Corporate and other	23,618	1,511	(384)	24,745
Foreign government securities	4,722	151	(97)	4,776
Total fixed maturities	57,113	3,805	(554)	60,364
Common stock	1,516	168	(217)	1,467
Preferred stock	489	21	(134)	376
Total equity securities	2,005	189	(351)	1,843
Total securities available for sale	$59,118	$3,994	($905)	$62,207

$ 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

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

$ in Millions	As of September 30, 2011							
Mortgage & Asset-Backed Fixed Maturities by Credit Quality[1]	**AAA**	**AA**	**A**	**BBB**	**BB**	**B or Lower**	**Total**	**% of Total**
SBA loans	$-	$1,467	$-	$-	$-	$-	$1,467	10.5%
GNMA residential mortgage	1	3,351	-	-	-	-	3,352	24.0
FNMA residential mortgage	-	3,032	-	-	-	-	3,032	21.7
FHLMC residential mortgage	-	2,945	-	-	-	-	2,945	21.1
Prime residential mortgage	98	33	20	-	1	224	376	2.7
Alt-A residential mortgage	55	7	-	3	-	113	178	1.3
Sub-prime residential mortgage	20	1	7	6	1	19	54	0.4
Commercial mortgage backed securities	2,110	140	10	10	2	-	2,272	16.2
Non-mortgage asset backed securities	191	25	30	29	3	13	291	2.1
Total	$2,475	$11,001	$67	$48	$7	$369	$13,967	100.0%
% of Total	17.7%	78.8%	0.5%	0.3%	0.1%	2.6%	100.0%	

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

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). The Standard & Poor's downgrade of the U.S. government and government sponsored entities issued in August 2011 resulted in approximately $11 billion in previously AAA rated securities being reflected as AA rated securities in the table above. The commercial mortgage backed securities portfolio is well diversified and of high quality with 99% rated AA or above with approximately 20% 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 September 30, 2011 and December 31, 2010:

$ in Millions	As of September 30, 2011		As of December 31, 2010	
Fixed Maturities by Credit Quality[1]	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
AAA	$8,584	14.2%	$23,169	39.6%
AA+, AA, AA-	24,704	40.9	9,749	16.6
A+, A, A-	10,959	18.2	10,350	17.7
BBB+, BBB, BBB-	9,862	16.3	9,100	15.5
BB+, BB, BB-	2,468	4.1	2,730	4.7
B+, B, B-	2,953	4.9	2,553	4.4
CCC or lower	834	1.4	902	1.5
Total fixed maturities	$60,364	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 September 30, 2011 increased to 90% from 89% at December 31, 2010. The Standard & Poor's downgrade of the U.S. government and government sponsored entities issued in August is the primary driver of the $14 billion decrease in AAA rated securities and offsetting increase in AA rated securities noted in the table above. Overall, the average credit quality

rating stands at A+ as of September 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 September 30, 2011 and December 31, 2010:

$ in Millions	As of September 30, 2011		As of December 31, 2010	
Fixed Maturities by Maturity Date	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
1 year or less	$2,766	4.6%	$2,458	4.2%
Over 1 year through 5 years	17,261	28.6	16,408	28.0
Over 5 years through 10 years	14,309	23.7	13,391	22.9
Over 10 years	12,061	20.0	12,042	20.6
Mortgage and asset-backed securities	13,967	23.1	14,254	24.3
Total fixed maturities	$60,364	100.0%	$58,553	100.0%

During 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 nine months ended September 30, 2011 and 2010:

$ in Millions	Three Months Ended September 30,		Nine Months Ended September 30,	
Net Investment Income	**2011**	**2010**	**2011**	**2010**
Taxable interest income	$629	$618	$1,855	$1,804
Tax-exempt interest income	115	129	350	421
Dividends	14	9	38	31
Limited partnerships and limited liability companies	138	145	476	234
Commercial mortgage loans	20	18	58	54
Other investment (loss) income	(1)	1	(3)	2
Gross investment income	915	920	2,774	2,546
Investment expenses	(34)	(36)	(104)	(115)
Net investment income	$881	$884	$2,670	$2,431

Net investment income for the three and nine months ended September 30, 2011 was $881 million and $2.670 billion, respectively, a decrease of $3 million and increase of $239 million versus the same periods in 2010. The increase year-to-date primarily reflects an increase in limited partnerships' and limited liability companies' income of $242 million 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 Gains (Losses)

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

$ in Millions **Net Realized Gains (Losses)**	**Sales & Dispositions**	**Impairments**	**Change in Derivatives Value**	**Total**
Three Months Ended September 30, 2011:				
Fixed maturities	$6	($1)	$-	$5
Common and preferred stock	23	(19)	-	4
Other	32	-	-	32
Total	$61	($20)	$-	$41
Three Months Ended September 30, 2010:				
Fixed maturities	$85	($27)	$-	$58
Common and preferred stock	31	(1)	-	30
Other	(1)	(1)	-	(2)
Total	$115	($29)	$-	$86

$ in Millions **Net Realized Gains (Losses)**	**Sales & Dispositions**	**Impairments**	**Change in Derivatives Value**	**Total**
Nine Months Ended September 30, 2011:				
Fixed maturities	$81	($31)	$-	$50
Common and preferred stock	77	(20)	-	57
Other	61	-	-	61
Total	$219	($51)	$-	$168
Nine Months Ended September 30, 2010:				
Fixed maturities	$298	($34)	$-	$264
Common and preferred stock	41	(1)	-	40
Other	(3)	(9)	-	(12)
Total	$336	($44)	$-	$292

$ in Millions	Three Months Ended September 30,		Nine Months Ended September 30,	
Components of Net Realized Gains (Losses)	**2011**	**2010**	**2011**	**2010**
Fixed maturities:				
Gross realized gains	$24	$90	$140	$317
Gross realized losses	(19)	(32)	(90)	(53)
Equities:				
Gross realized gains	33	31	91	43
Gross realized losses	(29)	(1)	(34)	(3)
Other:				
Gross realized gains	49	3	96	11
Gross realized losses	(17)	(5)	(35)	(23)
Total net realized gains	$41	$86	$168	$292

Net realized gains for the three and nine months ended September 30, 2011 were $41 million and $168 million, respectively, decreases of $45 million and $124 million from the same periods in 2010. The decreases primarily reflect a foreign exchange loss recognized in 2011 on Venezuela securities, combined with sales undertaken during 2010 in connection with the shift in the Company's tactical allocation that did not recur in 2011. The decreases were partially offset by gains recognized in connection with the 2009 sale of certain Commercial Market policy renewal rights and gains associated with the Company's investments in the energy sector.

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 September 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	$-	$1	$-	$-
Mortgage and asset-backed securities:				
Residential	(4)	165	(35)	308
Commercial	(2)	158	(3)	30
Other mortgage and ABS	(1)	10	(2)	17
U.S. state and municipal	(2)	149	(24)	140
Corporate and other	(253)	5,439	(131)	673
Foreign government securities	(40)	605	(57)	542
Total fixed maturities	(302)	6,527	(252)	1,710
Common stock	(185)	757	(32)	99
Preferred stock	(1)	13	(133)	255
Total equities	(186)	770	(165)	354
Total	($488)	$7,297	($417)	$2,064

Unrealized losses increased from $591 million as of December 31, 2010 to $905 million as of September 30, 2011 primarily due to a general decline in market values related to the equity markets. Unrealized losses less than 12 months increased from $263 million at December 31, 2010 to $488 million as of September 30, 2011. Unrealized losses 12 months or longer increased from $328 million as of December 31, 2010 to $417 million as of September 30, 2011. As of September 30, 2011, there were 585 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 flows and fair value. For the three and nine months ended September 30, 2011, the Company recorded $1 million and $31 million, respectively, of fixed maturity impairment losses. The Company has concluded that the remaining gross unrealized losses of fixed maturity securities as of September 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 September 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 September 30, 2011, the Company has concluded that the gross unrealized losses of equity securities as of September 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 September 30, 2011 (including cash and cash equivalents) totaled $72.441 billion.

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

$ in Millions	**As of September 30, 2011**	**As of December 31, 2010**
Commercial paper	$75	$-
Federal Home Loan Bank of Boston borrowings	12	-
Current maturities of long-term debt[1]	205	1
Total short-term and current maturities of long-term debt	$292	$1

[1] Primarily reflects $204 million of debt originally issued by Safeco. On December 29, 2008, $187 million of the outstanding $204 million 7.25% notes due 2012 were exchanged for a like principal amount of newly issued Liberty Mutual Group Inc. ("LMGI") notes.

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

$ in Millions	As of September 30, 2011	As of December 31, 2010
7.25% Notes, due 2012	$ -	$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]	1,116	1,250
7.697% Surplus notes, due 2097	435	435
Subtotal	5,524	5,684
Unamortized discount	(51)	(49)
Total long-term	$5,473	$5,635

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

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

Debt Transactions and In-force Credit Facilities

During the quarter ended September 30, 2011, the Company repurchased $134 million of the 10.75% Junior Subordinated Notes due 2088 (the “2088 Notes”). A loss of $37 million was recorded on the transactions and is included in loss on extinguishment of debt in the consolidated statements of operations. After completion of the open market purchases, $1.116 billion aggregate principal amount of the 2088 Notes was outstanding as of September 30, 2011.

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 the transactions which is included in loss on extinguishment of debt in the consolidated statements of operations. 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 0.27% 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 September 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 September 30, 2011, there was $75 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 September 30, 2011, no borrowings were outstanding under the facility.

Interest Expense

Consolidated interest expense for the three and nine months ended September 30, 2011 was $111 million and $333 million, decreases of $4 million and $12 million from the same periods in 2010. The decreases primarily reflect the completion of the tender offer on the 2036 Notes. As previously discussed, the

Company continues to evaluate market conditions and may periodically effect transactions in its debt, subject to applicable limitations. Debt repurchases may be done through open market or other appropriate transactions. During the nine months ended September 30, 2011, the Company repurchased $134 million of the 2088 Notes. A loss of $37 million was recorded on the transactions and is included in loss on extinguishment of debt in the consolidated statements of operations. The Company continues to evaluate market conditions and may periodically effect transactions in its debt, subject to applicable limitations.

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 September 30, 2011, the Company, through its downstream subsidiary LMGI, had $4.913 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	$49
LMFIC	551%	451%	$120	$61
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 nine months ended September 30, 2011. Available dividend capacity as of September 30, 2011 is calculated as 2011 dividend capacity less dividends paid for the preceding 12 months. Dividends paid October 1, 2010 through September 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 nine months ended September 30, 2011, LCS recorded $83 million and $264 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 $15.011 billion and $16.039 billion at September 30, 2011 and December 31, 2010, respectively. The decrease in surplus primarily reflects a net loss of $895 million (the sum of earnings from the Company’s 58 domestic insurance companies and dividends from subsidiaries), other changes in surplus of ($476) million, primarily related to dividends to stockholders, a decrease in net deferred tax assets and an increase in non-admitted assets, and unaffiliated unrealized losses of $236 million, partially offset by affiliated unrealized gains of $579 million.

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 third 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 deferred 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 applying the guidance retrospectively, and the cumulative effect of the change in the method of accounting will result in a decrease in the opening balance of unassigned equity as of January 1, 2010 of approximately $300-$400 million, net of tax.

None of the other accounting standards issued for the third 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 nine months ended September 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 $49.120 billion and $48.059 billion as of September 30, 2011 and December 31, 2010, respectively. The increase resulted primarily from large losses due to the 2011 Australia floods, Cyclone Yasi, Japan earthquake and tsunami, New Zealand earthquakes, Hurricane Irene and the tornadoes and other 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 increased $206 million from $1.190 billion as of December 31, 2010 to $1.396 billion as of September 30, 2011.

In the third quarter of 2011, the Company completed ground-up asbestos and environmental reserve studies. The studies were completed by a multi-disciplined team of internal claims, legal, reinsurance and actuarial personnel, and they included all major segments of the Company's direct, assumed, and ceded asbestos and environmental claims. As part of the internal reviews, 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 studies resulted in an increase to reserves of $338 million. Between comprehensive studies, the Company monitors asbestos and environmental activity to determine whether or not any adjustment to reserves is warranted.

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 $13.361 billion and $14.310 billion at September 30, 2011 and December 31, 2010, respectively, net of allowance for doubtful accounts of $341 million and $393 million, respectively. The decrease in reinsurance recoverables is primarily due to the commutations of two excess of loss retroactive reinsurance agreements. Included in these balances are $1.004 billion and

$965 million of paid recoverables and $12.698 billion and $13.738 billion of unpaid recoverables, respectively.

The Company's 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 94% and 93% of the Company's reinsurance recoverable balance, net of collateral held and including voluntary and involuntary pools and associations, was from reinsurers rated A- or better from A.M. Best and Standard & Poor's, respectively, at September 30, 2011. Collateral held against outstanding gross reinsurance recoverable balances was $4.642 billion and $5.359 billion at September 30, 2011 and December 31, 2010, respectively.

The remaining 6% and 7% 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 September 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 September 30, 2011, and December 31, 2010, deferred gains related to these reinsurance arrangements were $328 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 nine months ended September 30, 2011 was $35 million and $84 million, respectively, as compared to $30 million and $89 million for the three and nine months ended September 30, 2010, respectively. Deferred gain amortization for the three and nine months ended September 30, 2011 was $15 million and $124 million, respectively, as compared to $16 million and $50 million for the three and nine months ended September 30, 2010, respectively. Reinsurance recoverables related to these transactions, including experience related profit accruals, were $1.241 billion and $1.947 billion at September 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 flows 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 flows 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 September 30, 2011 the Company has determined that it is the primary beneficiary of one VIE in the energy investment sector, and as such, this VIE has been consolidated in the Company's financial statements. The carrying value of assets and liabilities, and the Company's maximum exposure to loss of the consolidated VIE is immaterial to the Company.

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 $237 million and $94 million as of September 30, 2011 and December 31, 2010, respectively and the Company's maximum exposure to loss was $326 million and $123 million as of September 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 September 30, 2011, the Company had no material derivative agreements in place.

Deferred Acquisition Costs

Total deferred policy acquisition costs were $2.789 billion and $2.771 billion as of September 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 $4.713 billion and $4.750 billion as of September 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 $709 million and $796 million as of September 30, 2011 and December 31, 2010, respectively, net of a valuation allowance of $140 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 decrease in the valuation allowance is primarily due to currency translation adjustments on 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	3
Additions for tax positions of prior years	36
Reductions for positions in the prior year	(2)
Settlements	(38)
Balance at September 30, 2011	$320

Included in the tabular roll forward of unrecognized tax benefits is interest in the amount of $79 million and $84 million as of September 30, 2011 and December 31, 2010, respectively.

Included in the balance at September 30, 2011, is $151 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 September 30, 2011 and 2010, the Company recognized $3 million and $2 million in interest and penalties, respectively. During the nine months ended September 30, 2011 and 2010, the Company recognized approximately $4 million and $5 million in interest and penalties, respectively. The Company had approximately $84 million and $80 million of interest and penalties accrued at September 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 to create an Irish insurance company 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 will be the indirect owner of 51% of the joint venture. The Irish insurer will also provide services related to QIL's business in the United Kingdom. The transaction has received all court, legislative and European Union approvals and is now subject to QIL creditor approval and receipt of the necessary insurance license. Completion of the transaction is expected in the fourth quarter of 2011, at which time the Company will fund its capital commitment to the joint venture of €103 million.

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.