Liberty Mutual Holding Company Inc.

Fourth Quarter 2010

Consolidated Financial Statements

Liberty Mutual Holding Company Inc.

Consolidated Statements of Income

(dollars in millions)

(unaudited)

	Years Ended December 31,		
	2010	**2009**	**2008**
Revenues			
Premiums earned	$ 28,699	$ 27,791	$ 25,524
Net investment income	3,328	2,482	2,880
Net realized investment gains (losses)	402	26	(330)
Fee and other revenues	764	795	781
Total revenues	33,193	31,094	28,855
Claims, Benefits and Expenses			
Benefits, claims and claim adjustment expenses	20,984	20,169	18,894
Insurance operating costs and expenses	4,496	4,336	4,105
Amortization of deferred policy acquisition costs	4,757	4,692	3,989
Interest expense	456	483	411
Interest credited to policyholders	185	204	203
Total claims, benefits and expenses	30,878	29,884	27,602
Income before income tax expense	2,315	1,210	1,253
Income tax expense	637	187	140
Net income	$ 1,678	$ 1,023	$ 1,113

Net Realized Investment Gains (Losses)			
Other-than-temporary impairment losses:	**2010**	**2009**	**2008**
Total other-than-temporary impairment losses	$ (55)	$ (244)	$ (800)
Change in portion of loss recognized in other comprehensive income	(1)	13	-
Other-than-temporary impairment losses	(56)	(231)	(800)
Other net realized investment gains	458	257	470
Net realized investment gains (losses)	$ 402	$ 26	$ (330)

See accompanying notes to the unaudited consolidated financial statements.

Liberty Mutual Holding Company Inc.

Consolidated Balance Sheets

(dollars in millions)

(unaudited)

	December 31, 2010	December 31, 2009
Assets:		
Investments		
Fixed maturities, available for sale, at fair value (amortized cost of $56,375 and $54,789)	$ 58,553	$ 56,439
Equity securities, available for sale, at fair value (cost of $1,552 and $1,077)	1,733	1,188
Short-term investments	313	575
Mortgage loans	1,206	1,121
Other investments	3,067	2,619
Total investments	64,872	61,942
Cash and cash equivalents	4,930	4,847
Premium and other receivables (net of allowance of $143 and $121)	8,072	7,629
Reinsurance recoverables (net of allowance of $393 and $434)	14,310	14,749
Deferred income taxes (net of valuation allowance of $153 and $160)	796	1,691
Deferred acquisition costs	2,771	2,636
Goodwill	4,750	4,748
Prepaid reinsurance premiums	1,404	1,317
Separate account assets	3,893	3,557
Other assets	6,552	6,359
Total assets	$ 112,350	$ 109,475
Liabilities:		
Unpaid claims and claim adjustment expenses and future policy benefits:		
Property and casualty	$ 48,059	$ 48,355
Life	6,781	6,586
Other policyholder funds and benefits payable	3,629	3,300
Unearned premiums	13,977	13,224
Funds held under reinsurance treaties	1,784	1,819
Short-term and current maturities of long-term debt	1	305
Long-term debt	5,635	5,635
Separate account liabilities	3,893	3,557
Other liabilities	11,613	12,180
Total liabilities	95,372	94,961
Policyholders' equity:		
Unassigned equity	15,692	14,014
Accumulated other comprehensive income	1,286	500
Total policyholders' equity	16,978	14,514
Total liabilities and policyholders' equity	$ 112,350	$ 109,475

See accompanying notes to the unaudited consolidated financial statements.

Liberty Mutual Holding Company Inc.

Consolidated Statements of Changes in Policyholders' Equity

(dollars in millions)

(unaudited)

	Unassigned Equity	Accumulated Other Comprehensive Income (Loss)	Policyholders' Equity
Balance, January 1, 2008	$ 11,891	$ 745	$ 12,636
Cumulative effect of adoption of ASC 715 at January 1, 2008 (Note 1)	(41)		(41)
Comprehensive loss			
Net income	1,113	-	1,113
Other comprehensive income, net of taxes:			
Unrealized losses on securities	-	(2,246)	(2,246)
Less: reclassification adjustment for gains			
and losses included in net income	-	215	215
Change in pension and post retirement plans funded status	-	(869)	(869)
Foreign currency translation and other adjustments	-	(405)	(405)
Other comprehensive loss, net of taxes	-	(3,305)	(3,305)
Total comprehensive loss			(2,192)
Balance, December 31, 2008	$ 12,963	$ (2,560)	$ 10,403
Cumulative effect of adoption of ASC 320 at January 1, 2009 (Note 1)	28	(28)	-
Comprehensive income			
Net income	1,023	-	1,023
Other comprehensive income, net of taxes:			
Unrealized gains on securities	-	2,589	2,589
Less: reclassification adjustment for gains			
and losses included in net income	-	(17)	(17)
Change in pension and post retirement plans funded status	-	298	298
Foreign currency translation and other adjustments	-	218	218
Other comprehensive income, net of taxes	-	3,088	3,088
Total comprehensive income			4,111
Balance, December 31, 2009	$ 14,014	$ 500	$ 14,514
Comprehensive income			
Net income	1,678	-	1,678
Other comprehensive income, net of taxes:			
Unrealized gains on securities	-	443	443
Less: reclassification adjustment for gains			
and losses included in net income	-	(261)	(261)
Change in pension and post retirement plans funded status	-	560	560
Foreign currency translation and other adjustments	-	44	44
Other comprehensive income, net of taxes	-	786	786
Total comprehensive income			2,464
Balance, December 31, 2010	$ 15,692	$ 1,286	$ 16,978

See accompanying notes to the unaudited consolidated financial statements.

Liberty Mutual Holding Company Inc.

Consolidated Statements of Cash Flows

(dollars in millions)

(unaudited)

	Year Ended December 31,		
	2010	**2009**	**2008**
Cash flows from operating activities:			
Net income	$ 1,678	$ 1,023	1,113
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	409	350	313
Realized investment (gains) losses	(402)	(26)	330
Undistributed private equity investment (gains) losses	(364)	423	5
Premium, other receivables, and reinsurance recoverables	(132)	526	572
Deferred policy acquisition costs	(167)	(131)	(16)
Liabilities for insurance reserves	1,081	197	1,775
Taxes payable, net of deferred	649	(173)	(220)
Other, net	9	298	(1,127)
Total adjustments	1,083	1,464	1,632
Net cash provided by operating activities	2,761	2,487	2,745
Cash flows from investing activities:			
Purchases of investments	(19,578)	(18,874)	(13,668)
Sales and maturities of investments	17,721	14,928	18,257
Property and equipment purchased, net	(507)	(355)	(143)
Payment for purchase of companies, net of cash acquired	-	-	(5,414)
Other investing activities	(40)	173	(185)
Net cash used in investing activities	(2,404)	(4,128)	(1,153)
Cash flows from financing activities:			
Net activity in policyholder accounts	194	122	62
Debt financing, net	(301)	(84)	1,121
Net security lending activity and other financing actitivites	50	621	(65)
Net cash (used in) provided by financing activities	(57)	659	1,118
Effect of exchange rate changes on cash	(217)	(19)	(61)
Net increase (decrease) in cash and cash equivalents	83	(1,001)	2,649
Cash and cash equivalents, beginning of year	4,847	5,848	3,199
Cash and cash equivalents, end of year	$ 4,930	$ 4,847	5,848
Supplemental disclosure of cash flow information:			
Income tax (refund) paid	$ (2)	$ 366	310

See accompanying notes to the unaudited consolidated financial statements.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Liberty Mutual Holding Company Inc. and its subsidiaries (collectively "LMHC" or the "Company"). Certain reclassifications have been made to the 2009 and 2008 consolidated financial statements to conform with the 2010 presentation. All material intercompany transactions and balances have been eliminated.

The accompanying consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP"). 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 the amounts included in the consolidated financial statements reflect their best estimates and assumptions, these amounts ultimately could be materially different from the amounts currently provided for in the consolidated financial statements.

Nature of Operations

The Company conducts substantially all of its business through four strategic business units: Liberty Mutual Agency Corporation ("LMAC"), International, Personal Markets, and Commercial Markets.

The Company's LMAC business unit, with $11,687 of revenues in 2010, distributes products through independent agents and brokers. It consists of: eight regionally branded insurance companies that offer commercial insurance coverage to small businesses; personal lines products sold under the Safeco brand; and Liberty Mutual Surety (nationwide contract and commercial surety bonds).

The Company's International business unit, with $7,928 of revenues in 2010, provides insurance products and services through local businesses outside the United States, which sell personal and small commercial lines products, and Liberty International Underwriters ("LIU") which sells specialty commercial lines worldwide. The local businesses consist of local insurance operations selling property, casualty, health and life insurance products to individuals and businesses in countries with a large and growing middle class. Automobile insurance is the predominant line of business. International operates local businesses in Latin America (Venezuela, Argentina, Colombia, Brazil and Chile); Asia (Singapore, Thailand, Vietnam and China); and Europe (Spain, Portugal, Turkey and Poland). LIU, a global specialty commercial lines insurance and reinsurance business with operations principally based in 18 countries: United States, Canada, Brazil, United Kingdom, Germany, France, the United Arab Emirates, the Netherlands, Spain, Switzerland, Ireland, Australia, Hong Kong, China, Singapore, Malaysia, India and Vietnam. LIU operations provide a variety of specialty products including casualty, marine, construction, energy, inland marine, directors and officers, professional liability, aviation, property, surety and crisis management insurance, together with multi-line insurance and reinsurance written through Lloyd's of London, Syndicate 4472.

The Company's Personal Markets business unit, with $7,502 of revenues in 2010, writes U.S. property and casualty insurance covering personal risks, primarily automobile and homeowners, as well as a wide range of life and annuity products, to individuals in the United States. Products are distributed through licensed captive sales representatives, licensed telesales counselors, third-party producers, and the Internet.

The Commercial Markets business unit, with $6,331 of revenues in 2010, is organized into separate operating units. Each of these operating units consists of separate marketing and underwriting groups focusing on a particular customer base, product grouping or distribution channel to provide tailored products and services to address customers' needs. Operating units within the Commercial Markets business unit include Commercial Markets P&C, Liberty Mutual Reinsurance, Summit, and Group Benefits. Commercial Markets coverages include workers compensation, commercial automobile, general liability, group disability, group life, assumed reinsurance, property, commercial multiple peril, and a variety of other coverages. Commercial Markets is also a servicing carrier for workers compensation involuntary market pools. In addition, Commercial Markets provides third-party administration services through Helmsman Management Services. In January 2009, the Company established Liberty Mutual Middle Market, a new market segment that combined the Business Market and Wausau Insurance market segments, distributing products through independent agents and brokers (Note 2 contains more details on this transaction). Effective January 1, 2010, Summit, a mono-line workers compensation company for Florida and the Southeast, previously included in LMAC, became part of the Commercial Markets strategic business unit. On July 14, 2010, Commercial Markets established a new distribution and service organization, Commercial Markets P&C, combining Middle Market, National Market, Specialty Lines and Liberty Mutual Property. This operating model provides agents and brokers a single point of entry for accessing Commercial Markets' property, casualty and specialty lines insurance as well as claims and loss control services for national accounts and mid-sized business clients.

Adoption of New Accounting Standards

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

Effective January 1, 2008, the Company adopted the guidance related to the recognition and measurement of assets related to collateral assignment split-dollar life insurance arrangements as codified in ASC 715, *Compensation – Retirement Plans*. The adoption of this guidance resulted in a decrease to policyholders' unassigned equity of $41 (net of tax).

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 ASC 944, *Financial Services - Insurance,* specifies that acquisition costs should include only those costs that are directly related to the acquisition or renewal of insurance contracts. All other acquisition related costs - including market research, training, administration, unsuccessful acquisition or renewal efforts, and product development - should be charged to expense as incurred. The Company is required to adopt ASU 2010-26 effective January 1, 2012. The Company is in the process of evaluating the impact of adoption.

Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) consists principally of unrealized gains and losses on certain investments in debt and equity securities, foreign currency translation adjustments, and pension and postretirement liability adjustments.

The components of accumulated other comprehensive income (loss), net of related deferred acquisition costs and taxes, for the years ended December 31, 2010, 2009, and 2008 are as follows:

	2010	2009	2008
Unrealized gains (losses) on securities	$1,269	$1,115	$(1,457)
Foreign currency translation and other adjustments	313	269	51
Pension liability funded status	(296)	(856)	(1,154)
Cumulative effect of adoption of ASC 320 at January 1, 2009	-	(28)	-
Accumulated other comprehensive income (loss)	$1,286	$ 500	$(2,560)

(2) ACQUISITIONS AND DISPOSITIONS

Safeco Corporation

On September 22, 2008, Liberty Mutual Group completed the acquisition of Safeco Corporation ("Safeco"). Pursuant to the terms of the purchase agreement, the Company paid cash of $68.25 per share in exchange for all outstanding shares of the Safeco common stock for a total purchase price of $6,244. The operations of Safeco were merged into the LMAC strategic business unit.

The total purchase price was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. The excess of the purchase price over the aggregate fair values was recorded as goodwill. The fair value assigned to identifiable intangible assets acquired was primarily determined using the income approach, which discounts expected cash flows to present value using estimates and assumptions determined by management.

Intangible Assets

	Carrying Value December 31, 2010	**Carrying Value December 31, 2009**	**Period (Years)**	**Method**
Agency relationship	$523	$564	15	Straight-line
Trademarks	229	229	Not subject to amortization	Not subject to amortization
State licenses	63	63	Not subject to amortization	Not subject to amortization
Other	16	17	10	Present Value Mid-year Convention
Total intangible assets[1]	$831	$873		

[1] Net of accumulated amortization of $89 and $47 as of December 31, 2010 and 2009, respectively.

For the years ended December 31, 2010 and 2009, the Company recognized $42 and $38, respectively, of amortization expense which is reflected in insurance operating costs and expenses on the consolidated statements of income. Estimated amortization for the years ended December 31, 2011 through 2015 is $42, $43, $44, $44 and $44, respectively.

Integration Activities
As part of the Safeco acquisition, management conducted integration efforts that resulted in employment reductions, contract terminations, systems integrations and other transitional activities. Total integration (benefit) costs incurred for the years ended December 31, 2010 and 2009 were $(2) and $65, respectively, of which $(1) and $42, respectively, were recognized as assumed liabilities as part of purchase accounting for the acquisition. Integration costs not directly associated with the acquisition were included in insurance operating costs and expenses in the consolidated statements of income. $6 and $77 of the costs were paid in 2010 and 2009, respectively.

Ohio Casualty Corporation
On August 24, 2007, Liberty Mutual Group completed the acquisition of Ohio Casualty Corporation ("Ohio Casualty"). Pursuant to the terms of the purchase agreement, the Company paid cash of $44.00 per share in exchange for all outstanding shares of the Ohio Casualty common stock for a total purchase price of $2,780. The operations of Ohio Casualty were merged into the LMAC strategic business unit.

The total purchase price was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. The excess of the purchase price over the aggregate fair values was recorded as goodwill. The fair value assigned to identifiable intangible assets acquired was primarily determined using the income approach, which discounts expected cash flows to present value using estimates and assumptions determined by management.

Intangible Assets

	Carrying Value December 31, 2010	Carrying Value December 31, 2009	Period (Years)	Method
Agency relationship	$124	$132	20	Straight-line
Trademarks	33	33	Not subject to amortization	Not subject to amortization
State licenses [2]	20	22	Not subject to amortization	Not subject to amortization
Total intangible assets [1]	$177	$187		

(1) Net of accumulated amortization of $30 and $22 as of December 31, 2010 and 2009, respectively.

(2) On February 23, 2010, the Company merged two of its insurance subsidiaries, Avomark Insurance Company and West American Insurance Company. As of May 24, 2010, authorization was given by all states to terminate certificates of authority resulting in a decrease in value of $2.

For the years ended December 31, 2010 and 2009, the Company recognized $8 and $9, respectively, of amortization expense which is reflected in insurance operating costs and expenses on the consolidated statement of income. For each of the years ended December 31, 2011 through 2015 estimated amortization is $8.

Dispositions
The Company recognized $35 related to restructuring efforts, principally related to employee and contract terminations with respect to the Business Market and Wausau Insurance market segments within Commercial Markets. These costs are primarily included in insurance operating costs and expenses in the 2008 statement of income. Payments under restructuring activities were substantially completed in 2009.

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

In accordance with the Asset Purchase Agreements (collectively, the "Sales Agreements"), total consideration due to the Company for the sale of the renewal rights will be paid over a two or three year period subject to the Earn Out Adjustment provisions provided by the Sales Agreements. Amounts received by the Company will be recognized in earnings when received.

(3) INVESTMENTS

Components of Net Investment Income

	Years Ended December 31,		
	2010	**2009**	**2008**
Taxable interest income	$2,426	$2,301	$2,349
Tax-exempt interest income	539	623	472
Dividends	42	41	98
Limited partnerships and limited liability companies	398	(411)	4
Commercial mortgage loans	73	68	58
Other investment income	6	9	27
Gross investment income	3,484	2,631	3,008
Investment expenses	(156)	(149)	(128)
Net investment income	$3,328	$2,482	$2,880

Components of Net Realized Investment Gains (Losses)

	Years Ended December 31,		
	2010	**2009**	**2008**
Fixed maturities			
Gross realized gains	$421	$173	$109
Gross realized losses	(72)	(259)	(436)
Equities			
Gross realized gains	52	146	341
Gross realized losses	(3)	(64)	(801)
Other			
Gross realized gains	73	84	469
Gross realized losses	(69)	(54)	(12)
Net realized investment gains (losses)	$402	$26	$(330)

As of December 31, 2010 and 2009, other-than-temporary impairments recognized through accumulated other comprehensive income were $31 and $30, respectively.

During the years ended December 31, 2010, 2009, and 2008, proceeds from sales of fixed maturities available for sale were $9,177, $4,859, and $7,013, respectively. The gross realized gains (losses) on such sales totaled $357 and $(22) in 2010, $145 and $(67) in 2009, and $85 and $(122) in 2008.

Components of Change in Net Unrealized Investment Gains (Losses)

	2010	**2009**	**2008**
Fixed maturities	$357	$3,864	$(2,257)
Equities	71	206	(962)
Other	(10)	18	(5)
Adjustments to deferred policy acquisition costs	(8)	(169)	145
Net change in unrealized investment gains (losses)	410	3,919	(3,079)
Deferred income tax (expense) benefit	(228)	(1,347)	1,048
Net change in unrealized investment gains (losses), net of tax	$182	$2,572	$(2,031)

Available for Sale Investments

The gross unrealized gains and losses and fair values of available for sale investments as of December 31, 2010 and 2009, are as follows:

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
Residential mortgage and ABS securities	9,628	455	(50)	10,033
Commercial mortgage and ABS securities	2,378	99	(4)	2,473
Other mortgage and ABS securities	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

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

Of the $1,230 and $688 of common stock as of December 31, 2010 and 2009, respectively, $304 and $275, respectively, related to securities associated with non-guaranteed unit linked products where the policyholder bears the investment risk.

As of December 31, 2010 and 2009, securities carried at $4,281 and $4,051, respectively, were on deposit with regulatory authorities as required by law.

As of December 31, 2010 and 2009, the fair values of fixed maturities loaned were approximately $1,687 and $1,547, respectively. Cash and short-term investments received as collateral in connection with the loaned securities were approximately $1,336 and $1,352 as of December 31, 2010 and

2009, respectively. Other investments received as collateral in connection with the loaned securities was approximately $396 and $247 as of December 31, 2010 and 2009, respectively.

The amortized cost and fair value of fixed maturities as of December 31, 2010, by contractual maturity are as follows:

	Amortized Cost	**Fair Value**
Due to mature:		
One year or less	$2,428	$2,458
Over one year through five years	15,801	16,408
Over five years through ten years	12,768	13,391
Over ten years	11,711	12,042
Mortgage and asset-backed securities of government and corporate agencies	13,667	14,254
Total fixed maturities	$56,375	$58,553

Expected maturities may differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

The following table shows a schedule of the Company's unrealized losses and fair value by security type and by duration that individual securities have been in a continuous unrealized loss position as of December 31, 2010, that are not deemed to be other-than-temporarily impaired.

	Less Than 12 Months		**12 Months or Longer**	
	Unrealized Losses	**Fair Value of Investments with Unrealized Losses**	**Unrealized Losses**	**Fair Value of Investments with Unrealized Losses**
U.S. government and agency securities	$(13)	$ 571	$(-)	$-
Residential mortgage and ABS securities	(14)	1,182	(36)	403
Commercial mortgage and ABS securities	(2)	103	(2)	62
Other mortgage and ABS securities	(1)	17	(5)	31
U.S. state and municipal	(84)	2,295	(36)	214
Corporate and other	(96)	3,601	(110)	892
Foreign government securities	(43)	1,536	(42)	305
Common stock	(8)	178	(15)	98
Preferred stock	(2)	51	(82)	308
Total	$(263)	$ 9,534	$(328)	$ 2,313

The following table shows a schedule of the Company's unrealized losses and fair value by security type and by duration that individual securities have been in a continuous unrealized loss position as of December 31, 2009, that are not deemed to be other-than-temporarily impaired.

	Less Than 12 Months		**12 Months or Longer**	
	Unrealized Losses	**Fair Value of Investments with Unrealized Losses**	**Unrealized Losses**	**Fair Value of Investments with Unrealized Losses**
U.S. government and agency securities	$(6)	$386	$-	$25
Residential mortgage and ABS securities	(16)	1,077	(96)	501
Commercial mortgage and ABS securities	(2)	253	(40)	629
Other mortgage and ABS securities	(7)	274	(14)	60
U.S. state and municipal	(35)	1,148	(65)	604
Corporate and other	(30)	1,324	(312)	2,875
Foreign government securities	(49)	884	(33)	150
Common stock	(2)	15	(30)	132
Preferred stock	-	-	(84)	357
Total	$(147)	$5,361	$(674)	$5,333

The above table for 2010 includes $227 of unrealized losses related to securities issued and guaranteed by the United States government, its agencies, government sponsored enterprises and state and municipal governments. Unrealized losses decreased from $821 as of December 31, 2009 to $591 as of December 31, 2010 primarily due to declining Treasury yields and a decrease in credit spreads. Unrealized losses less than 12 months increased from $147 at December 31, 2009 to $263 as of December 31, 2010, an increase of $116. Unrealized losses 12 months or longer decreased from $674 as of December 31, 2009 to $328 as of December 31, 2010 and accounted for $346 of the overall decrease in unrealized losses. As of December 31, 2010, there were 488 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.

Approximately 76% of the Company's securitized portfolio is explicitly backed by the U.S. government (GNMA and SBA) or by government-sponsored entities (FHLMC and FNMA). Over 94% of the mortgage and asset-backed holdings are rated AAA. The commercial mortgage backed securities portfolio is well diversified and of high quality with over 99% rated AA or above with approximately 18% of the underlying collateral having been defeased with U.S. Treasuries.

As of December 31, 2010, no single issuer, excluding U.S. Treasuries, agency securities and mortgage-backed securities, accounted for more than 1.1% of invested assets.

Variable Interest Entities

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

The Company has variable interests in VIEs for which it is not the primary beneficiary and accounts for these VIEs under the equity method in accordance with ASC 323, *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 $94 and $87 as of December 31, 2010 and December 31, 2009, respectively and the Company's maximum exposure to loss was $123 and $99 as of December 31, 2010 and December 31, 2009, respectively for unconsolidated VIEs in which the Company has a significant variable interest. The assets are included in Other Investments on the consolidated balance sheets. Maximum exposure to loss includes the carrying value and unfunded commitment of the VIE. There is no recourse provision to the general credit of the Company for any VIE beyond the full amount of the Company's loss exposure.

Investments in Mortgage Loans

As of December 31, 2010 and 2009, the carrying values of commercial mortgage loans were $1,206 and $1,121 respectively. The carrying values reflect allowances of $14 and $6 as of December 31, 2010 and 2009, respectively. Additionally, the Company's participation in any one commercial mortgage loan acquired does not exceed 49% of the loan value. As of December 31, 2010, the average total loan size was $2, and the average loan participation size was $1. The number of loans in the portfolio increased from 2,469 as of December 31, 2009, to 2,948 as of December 31, 2010. Approximately 90% of the loans are full or partial recourse to borrowers.

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. Beginning in January 2008, the Company, as part of its risk management program, diversification, and economic hedging strategies, entered into several futures contracts related to the equities market with notional amounts totaling $599. All futures contracts expired in March 2008, and the Company realized gains of $26 on these transactions. In March 2008, the Company entered into an equity swap agreement with a notional amount of $600. This contract was terminated in December 2008, and the Company realized gains of $187 on this transaction. In August 2008, the Company, as part of its risk management program and diversification strategy, entered into two equity swap agreements with a total notional amount of $335. For the year ended December 31, 2008, these contracts incurred a $99 net gain. These contracts matured in January 2009 resulting in realized gains of $25 for the twelve months ended December 31, 2009. As of December 31, 2010, the Company had no material derivative agreements in place.

(4) ASBESTOS AND ENVIRONMENTAL RESERVES

In the third quarter of 2009, the Company completed its biennial ground-up asbestos reserve study. The study was completed by a multi-disciplined team of internal claims, legal, reinsurance and actuarial personnel, and it included all major segments of the Company's direct, assumed, and ceded asbestos claims. As part of the internal review, potential exposures of certain policyholders were individually evaluated using the Company's proprietary stochastic model, which is consistent with published actuarial papers on asbestos reserving. Among the factors reviewed in depth by the team of specialists were the type of business, level of exposure, coverage limits, geographic distribution of products, types of injury, state jurisdictions, legal defenses, and reinsurance potential. The remaining policyholders (those with less potential exposure) were evaluated using aggregate methods that utilized information and experience specific to these insureds. The study resulted in an increase to reserves of $383, which included an increase of $70 to the allowance for uncollectible reinsurance. The previous comprehensive study was completed in 2007. The Company also completed its study on the environmental claims liability in 2009, resulting in immaterial adjustments to held reserves. During 2010 the Company monitored asbestos and environmental activity to determine whether or not any adjustment to reserves is warranted. Based on this review of actual emerged losses, no material adjustments were made.

(5) REINSURANCE

The Company is party to retroactive reinsurance arrangements where a significant portion of the consideration was retained on a "funds held" basis and interest is credited on the balance at a weighted average rate of approximately 7.7% annually. These contracts resulted in deferred gains (including experience related profit accruals of $195) that are amortized into income using the effective interest method over the estimated settlement periods. As of December 31, 2010 and 2009, deferred gains related to these reinsurance arrangements were $550 and $592, respectively, and are included in other liabilities within the consolidated balance sheets. Interest credited to the funds held balances for the years ended December 31, 2010, 2009, and 2008 was $118, $117, and $115, respectively. Deferred gain amortization was $54, $72, and $77 for the years ended December 31, 2010, 2009, and 2008, respectively. Reinsurance recoverables related to these transactions including experience related profit accruals were $1,947 and $2,019 as of December 31, 2010 and 2009, respectively.

Additionally, the Company has an aggregate stop loss program covering substantially all of Commercial Markets voluntary workers compensation business from the fourth quarter 2000 through the fourth quarter 2002 accident year periods. Under these contracts, losses in excess of a specified loss ratio are reinsured up to a maximum loss ratio and were accounted for as prospective reinsurance at inception. However, due to a material contract change at the January 1, 2002, renewal, any premium and loss activity subsequent to December 31, 2001, is accounted for as retroactive reinsurance for coverage provided from the fourth quarter 2000 through the fourth quarter 2001 covered accident year periods. Additional premium and loss activity related to each of these retroactive and prospective contracts was immaterial in 2010, 2009, and 2008. The retroactive portion of the aggregate stop loss program is included in the preceding paragraph.

In 2007, the Company entered into a multi-year property catastrophe reinsurance agreement with Mystic Re II Ltd. ("Mystic Re II"), a Cayman Islands domiciled reinsurer, to provide $150 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 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.

(6) DEBT OUTSTANDING

Debt outstanding as of December 31, 2010 and 2009 includes the following:

Short-term and current maturities of long-term debt:

	2010	2009
Commercial paper	$ -	$ -
Revolving credit facilities	-	4
Current maturities of long-term debt	1	301
Total short-term and current maturities of long-term debt	$ 1	$ 305

Long-term debt:

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

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

Debt Transactions and In-Force Credit Facilities

On May 12, 2010, LMAC entered into a $200 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 entered into an Amended and Restated Revolving Credit Agreement to allow both LMAC and Ohio Casualty to be joint and several co-borrowers under the facility, as well as to change certain covenants to reflect the combined financial statements of the co-borrowers. On December 20, 2010, the co-borrowers triggered the availability of the facility and established the specific terms of the financial covenants based on the current combined financial statements (after giving effect to certain reorganization transactions). To date, no funds have been borrowed under the agreement.

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

On March 26, 2010, Liberty Mutual Insurance Company ("LMIC") entered into a $750 three-year committed repurchase agreement. In connection with the new repurchase agreement, LMIC terminated its existing $750 364-day committed repurchase agreement. As of December 31, 2010, no borrowings were outstanding under the agreement.

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

On December 14, 2009, Liberty Mutual Group, Inc ("LMGI") entered into a three-year $400 unsecured revolving credit facility which terminates on December 14, 2012. In connection with the new facility, LMGI terminated its $250 three-year unsecured revolving credit facility and its two revolving credit facilities totaling $750. 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 $1,000 commercial paper program was reduced to $400 and is backed by the three-year $400 unsecured revolving credit facility. As of December 31, 2010, no commercial paper borrowings were outstanding.

On December 10, 2009, Berkeley/St. James Real Estate LLC, a wholly-owned affiliate of the Company, entered into a five-year $50 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 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 December 31, 2010, no borrowings were outstanding under the facility.

As part of its overall capital strategy, the Company previously announced that it may issue, repurchase or exchange debt depending on market considerations. Debt repurchases, may be done through open market or other appropriate transactions. For the year ended December 31, 2009, the Company repurchased $65 of the 7.697% Surplus Notes due 2097, $60 of the 7.50% Notes due 2036, $29 of the 6.50% Notes due 2035, $23 of the 7.875% Notes due 2026, $19 of the 7.00% Notes due 2034, $10 of the 8.50% Surplus Notes due 2025, and $1 of the 6.70% Notes due 2016. A gain of $59 was recorded on the transactions and is included in fee and other revenues in the consolidated statements of income.

Payments of interest and principal of the surplus notes are expressly subordinate to all policyholder claims and other obligations of LMIC. Accordingly, interest and principal payments are contingent upon prior approval of the Commissioner of Insurance of the Commonwealth of Massachusetts.

Capital lease obligations as of December 31, 2010 and 2009 were $177 and $105, respectively, and are included in other liabilities in the accompanying consolidated balance sheets. Amortization of the lease obligation was $15 and $49 for the years ended December 31, 2010 and 2009, respectively. In 2010 and 2008, the Company entered into arrangements to sell and leaseback certain furniture and equipment. The weighted average interest rate on these leases is 3.68%. The transactions are accounted for as capital leases. As of December 31, 2010, the Company's amortization of the lease obligations under the sale-leaseback agreements through maturity is approximately $30 for 2011, $32 for 2012, $33 for 2013, $17 for 2014 and $16 for 2015.

Interest

The Company paid $461, $468, and $406 of interest in 2010, 2009, and 2008, respectively.

(7) INCOME TAXES

The income tax provision is calculated under the liability method. The Company recognizes deferred income tax assets and liabilities for the expected future tax effects attributable to temporary differences between the financial statement and tax return bases of assets and liabilities based on enacted tax rates and other provisions of the tax law. The effect of a change in tax laws or rates on deferred tax assets and liabilities is recognized in income in the period in which such change is enacted. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that all or some portion of the deferred tax assets will not be realized. Deferred tax positions are not established for adjustments arising from foreign operations whose earnings are considered to be permanently reinvested.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Balance as of December 31, 2008	$221
Additions based on tax positions related to the current year	16
Additions for tax positions of prior years	7
Reductions for tax positions of prior years	(22)
Settlements	(1)
Balance as of December 31, 2009	221
Additions based on tax positions related to the current year	1
Additions for tax positions of prior years	138
Reductions for tax positions of prior years	(39)
Settlements	-
Balance as of December 31, 2010	$321

Included in the tabular roll forward of unrecognized tax benefits is interest in the amount of $84 and $85 as of December 31, 2010 and 2009, respectively.

Included in the December 31, 2010 balances above are $160 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 years ended December 31, 2010, 2009, and 2008, the Company recognized approximately $(2), $18, and $8 in interest and penalties. The Company had approximately $80 and $82 of interest and penalties accrued as of December 31, 2010 and 2009, respectively.

(8) BENEFIT PLANS

The net benefit costs for the years ended December 31, 2010, 2009, and 2008, include the following components:

December 31, 2010	**Pension**	**Supplemental Pension**	**Postretirement**
Components of net periodic benefit costs:			
Service costs	$196	$10	$24
Interest costs	290	20	46
Expected return on plan assets	(260)	-	-
Settlement charge	35	-	-
Amortization of unrecognized:			
Net loss	47	9	1
Prior service cost	6	3	(2)
Net transition (assets) obligation	(7)	-	5
Net periodic benefit costs	**$307**	**$42**	**$74**

December 31, 2009	**Pension**	**Supplemental Pension**	**Postretirement**
Components of net periodic benefit costs:			
Service costs	$200	$12	$28
Interest costs	278	19	46
Expected return on plan assets	(251)	-	-
Settlement charge	2	-	-
Amortization of unrecognized:			
Net loss	55	10	2
Prior service cost	6	2	(3)
Net transition (assets) obligation	(5)	-	9
Net periodic benefit costs	**$285**	**$43**	**$82**

December 31, 2008	**Pension**	**Supplemental Pension**	**Postretirement**
Components of net periodic benefit costs:			
Service costs	$142	$10	$22
Interest costs	251	15	40
Expected return on plan assets	(267)	-	(1)
Settlement charge	1	-	-
Amortization of unrecognized:			
Net loss (gain)	10	5	(2)
Prior service cost	6	3	(3)
Net transition (assets) obligation	(5)	-	9
Net periodic benefit costs	**$138**	**$33**	**$65**

*The Company sponsors supplemental retirement plans to provide pension benefits above the levels provided by the pension plans without regard to the statutory earnings limitations of qualified defined benefit plans. The supplemental plans are unfunded.

Plan Assets

The assets of the domestic Plan represent 97% and 93% of the total Plan assets as of December 31, 2010 and 2009, respectively. The Company's overall investment strategy for the domestic Plans' assets is to achieve a mix of approximately 65% of investments for near-term benefit payments and 35% for long-term growth with a wide diversification of asset types, fund strategies, and fund managers. The domestic Plan's goal is to achieve a total return in the range of 6%-8% annually with sufficient liquidity to meet the benefit needs of the domestic Plan.

The majority of the domestic Plans' assets are managed through separate accounts sponsored by Liberty Life Assurance Company of Boston, a wholly owned indirect subsidiary of the Company.

The target allocation for domestic Plans assets are 62% bonds, 20% diversified public equities, 15% private equity and real estate investments, and 3% cash and short-term investments.

Bonds include investment grade and high yield corporate bonds of companies from diversified industries, residential and commercial mortgage backed securities (RMBS and CMBS), asset backed securities (ABS) and collateralized mortgage obligations (CMO) along with U.S. Treasuries and Agencies (FNMA and FHLMC). Equity securities primarily include investments in large-cap and small-cap companies primarily located in the United States but also with exposures to Europe and Asia. Private equity and real estate investments include investments in private equity funds that follow several different strategies and real estate funds.

The investment strategy for each category of domestic Plans assets is as follows:

Bonds - Achieve superior performance against Barclay's Aggregate Bond Index and Merrill High Yield Index over a 3 to 5 year period.

U.S large cap equities – Mirror performance of the Standard and Poor's Index ("S&P 500").

U.S mid and small cap equities – Achieve superior performance against the Russell 2000 Index over a 3 to 5 year period.

European equities – Achieve superior performance against the MSCI Europe Index over a 3 to 5 year period.

Asian equities – Achieve superior performance against the MSCI Asia, ex Japan Index over a 3 to 5 year period.

Other equities – Represents other foreign equities.

Private equity investments – Achieve long-term returns in excess of liquid equity securities and provide diversification to domestic Plan's assets. Performance is targeted to outperform the S&P 500, Russell 2000, NASDAQ and private equity benchmarks or other relative benchmarks. Exposures are targeted at 80% to U.S. partnerships and 20% to International partnerships diversified by geography, manager, industry, stage and single vintage year.

Real estate investments – Achieve attractive risk-adjusted total returns through investment primarily in U.S. real estate funds diversified by geography, sector and single vintage year.

The domestic Plans' assets are administered by the Liberty Mutual Retirement Board who has the fiduciary responsibility for management of the domestic Plans' assets in accordance with the Liberty Mutual Retirement Benefit Plan Investment Policy. This policy has been approved by the Liberty Mutual Board of Directors.

The following table sets forth by level, within the fair value hierarchy, the plan's assets at fair value as of December 31, 2010 and 2009.

Fair Value Measurements as of December 31, 2010

Asset Category	**Total**	**Quoted prices in active markets for identical assets** **Level 1**[1]	**Significant Observable Inputs** **Level 2**[1]	**Significant Unobservable Inputs** **Level 3**[1]
Cash, cash equivalents and short-term investments	$325	$325	$-	$-
Bonds:				
U.S. government and agencies	361	351	10	-
RMBS/CMO/ABS/CMBS	974	-	974	-
Corporate and other	995	2	993	-
U.S. large cap equities	604	603	-	1
U.S. mid and small cap equities	154	154	-	-
European equities	148	145	-	3
Asian equities	230	230	-	-
Other equities	20	13	1	6
Private equity investments	86	-	-	86
Real estate investments	3	-	-	3
Total	$3,900	$1,823	$1,978	$99

[1] See Note 9 for descriptions of the three levels of fair value presentation.

		Fair Value Measurements as of December 31, 2009		
Asset Category	**Total**	**Quoted prices in active markets for identical assets** **Level 1[1]**	**Significant Observable Inputs** **Level 2[1]**	**Significant Unobservable Inputs** **Level 3[1]**
Cash, cash equivalents and short-term investments	$465	$465	$-	$-
Bonds:				
U.S. government and agencies	301	292	9	-
RMBS/CMO/ABS/CMBS	945	-	945	-
Corporate and other	853	23	830	-
U.S. large cap equities	513	513	-	-
U.S. mid and small cap equities	122	122	-	-
European equities	153	150	-	3
Asian equities	184	184	-	-
Other equities	19	12	3	4
Private equity investments	83	-	-	83
Real estate investments	2	-	-	2
Total	$3,640	$1,761	$1,787	$92

[1] See Note 9 for descriptions of the three levels of fair value presentation.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					
	U.S. Large Cap Equities	**European Equities**	**Private Equity**	**Real Estate**	**Other Equities**	**Total**
Beginning balance as of December 31, 2009	$-	$3	$83	$2	$4	$92
Actual return on plan assets:						
Relating to assets still held at the reporting date	-	-	(4)	1	1	(2)
Relating to assets sold during the year	-	-	11	-	-	11
Purchases, sales & settlements	1	-	(4)	-	1	(2)
Balance as of December 31, 2010	$1	$3	$86	$3	$6	$99

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
	European Equities	**Private Equity**	**Real Estate**	**Other Equities**	**Total**
Beginning balance as of December 31, 2008	$2	$95	$2	$4	$103
Actual return on plan assets:					
Relating to assets still held at the reporting date	-	(15)	-	-	(15)
Relating to assets sold during the year	-	5	-	-	5
Purchases, sales & settlements	1	(2)	-	-	(1)
Balance as of December 31, 2009	$3	$83	$2	$4	$92

The valuation of the Plan's investments in real estate and private equity are determined either internally or by an external fund manager based on recent filings, operating results, balance sheet stability, growth and other business and market sector fundamentals.

(9) FAIR VALUE OF FINANCIAL INSTRUMENTS

ASC 820 establishes a framework for measuring fair value and disclosures about fair value measurements. It provides guidance on how to measure fair value when required under existing accounting standards and establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels ("Level 1, 2 and 3"). Level 1 inputs are observable inputs that reflect quoted prices for identical assets or liabilities in active markets the Company has the ability to access at the measurement date. Level 2 inputs are observable inputs, other than quoted prices included in Level 1, for the asset or liability. Level 3 inputs are unobservable inputs reflecting the Company's estimates of the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). Transfers between levels are recognized at the end of each reporting period. Certain derivatives recorded at fair value are impacted by the application of this guidance. The Company has variable annuity contracts containing embedded derivatives.

The hierarchy requires the use of market observable information when available for assessing fair value. The following tables summarize the Company's assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2010 and 2009 along with a brief description of the valuation technique for each type of asset and liability:

	As of December 31, 2010			
Assets, at Fair Value	**Level 1**	**Level 2**	**Level 3**	**Total**
U.S. government and agency securities	$2,152	$1,024	$16	$3,192
Mortgage and asset-backed securities:				
Residential	-	9,854	179	10,033
Commercial	-	2,453	20	2,473
Other mortgage and asset-backed securities	-	1,734	14	1,748
U.S. state and municipal	-	12,718	14	12,732
Corporate and other	-	23,204	771	23,975
Foreign government securities	-	4,286	114	4,400
Total fixed maturities, available for sale	2,152	55,273	1,128	58,553
Common stock	1,212	-	18	1,230
Preferred stock	-	499	4	503
Total equity securities, available for sale	1,212	499	22	1,733
Short-term investments	119	191	3	313
Other investments	-	54	115	169
Separate account assets	1,781	1,938	174	3,893
Other assets	9	52	23	84
Total assets	$5,273	$58,007	$1,465	$64,745
Liabilities, at Fair Value				
Life insurance obligations	$ -	$ -	$ (149)	$ (149)
Total liabilities	$ -	$ -	$ (149)	$ (149)

	As of December 31, 2009			
Assets, at Fair Value	**Level 1**	**Level 2**	**Level 3**	**Total**
U.S. government and agency securities	$1,504	$ 917	$ 44	$ 2,465
Mortgage and asset-backed securities:				
Residential	-	10,983	6	10,989
Commercial	-	2,145	15	2,160
Other mortgage and asset-backed securities	-	1,849	53	1,902
U.S. state and municipal	-	15,489	21	15,510
Corporate and other	-	18,835	848	19,683
Foreign government securities	-	3,723	7	3,730
Total fixed maturities, available for sale	1,504	53,941	994	56,439
Common stock	630	44	14	688
Preferred stock	-	497	3	500
Total equity securities, available for sale	630	541	17	1,188
Short-term investments	147	369	59	575
Other investments	-	62	64	126
Separate account assets	1,628	1,742	187	3,557
Other assets	15	75	19	109
Total assets	$3,924	$56,730	$1,340	$61,994
Liabilities, at Fair Value				
Life insurance obligations	$ -	$ -	$(143)	$ (143)
Total liabilities	$ -	$ -	$(143)	$ (143)

Fixed maturities and short-term investments are recorded at fair value in the Company's financial statements. In instances where there are quoted prices in active markets for identical instruments, as is the case within the U.S. Treasury market, these securities are categorized as Level 1 of the fair value hierarchy. For securities where the fair value of fixed income securities are estimated using recently executed transactions, market price quotations, bond spreads, or models that have inputs from published interest rate yield curves, these securities are generally categorized as Level 2 of the hierarchy. Additionally, in some instances where fixed maturity securities use significant inputs that are unobservable, they are categorized as Level 3 of the hierarchy.

Equity and trading securities are recorded at fair value in the Company's financial statements. The fair value of common stocks are generally based on quoted prices in active markets. As such, common stocks are generally categorized as Level 1 of the fair value hierarchy. The fair value of preferred stocks are generally determined by quoted prices for similar instruments in active markets, hence they are categorized as Level 2 of the fair value hierarchy. Additionally, in some instances where equity securities use significant inputs that are unobservable, they are categorized as Level 3 of the hierarchy.

Other investments include primarily international loans, foreign cash deposits and equity investments in privately held businesses. International loans and cash deposits are primarily valued using quoted prices for similar instruments in active markets; these assets are categorized as Level 2 of the fair value hierarchy. Equity investments in privately held businesses are valued using internal management estimates; they are categorized as Level 3 of the hierarchy. Limited partnership investments, which represent the remainder of the other investment balance on the consolidated balance sheet, are not subject to these disclosures and therefore are excluded from the above table.

Separate account assets, which primarily consist of fixed maturity and equity securities, are measured based on the methodologies discussed above. The activity in separate account assets is offset by an equal amount for separate account liabilities, which results in a net zero impact for the Company.

Other assets primarily consist of fixed maturities, short-term investments, and equity securities of captive companies sponsored by the Company. These assets are measured based on the methodology for individual securities as discussed above.

Life insurance obligations include certain variable annuity contracts which contain guaranteed minimum income benefits that contain embedded derivatives and are bifurcated from the host contract and carried at fair value. The measurements on these embedded derivatives is computed on a recurring basis using assumptions predominately classified as Level 3 (significant unobservable) inputs. While some inputs are observable in the market such as risk free rates, volatility and historical equity returns, the underlying future policyholder behavior inputs are highly unobservable. These assumptions include mortality, lapse, and the underlying take-up rate with regard to annuitization.

The following tables set forth the fair values of assets on a recurring basis classified as Level 3 within the fair value hierarchy:

	Balance January 1, 2010	**Net Realized Gains (Losses)**	**Net Unrealized Gains (Losses)**	**Net Purchases, (Sales) and (Maturities)**	**Transfer in and/ or out of Level 3**	**Balance December 31, 2010**
U.S. government and agency securities	$ 44	$ -	$ 1	$ (17)	$ (12)	$ 16
Mortgage and asset-backed securities:						
Residential	6	-	2	175	(4)	179
Commercial	15	-	(1)	17	(11)	20
Other mortgage and asset-backed securities	53	(1)	5	(26)	(17)	14
U.S. state and municipal	21	-	-	(1)	(6)	14
Corporate and other	848	2	(6)	(105)	32	771
Foreign government securities	7	-	(1)	107	1	114
Total fixed maturities	994	1	-	150	(17)	1,128
Common stock	14	1	2	6	(5)	18
Preferred stock	3	1	-	-	-	4
Total equity securities	17	2	2	6	(5)	22
Short-term investments	59	(2)	(3)	(51)	-	3
Other investments	64	14	(1)	3	35	115
Separate account assets	187	11	(4)	(4)	(16)	174
Other assets	19	1	-	3	-	23
Total assets	$1,340	$27	$(6)	$107	$(3)	$1,465
Life insurance obligations	$(143)	$ (33)	$ -	$ 27	$ -	$ (149)
Total liabilities	$(143)	$ (33)	$ -	$ 27	$ -	$ (149)

	Balance January 1, 2009	**Net Realized Gains (Losses)**	**Net Unrealized Gains (Losses)**	**Net Purchases, (Sales) and (Maturities)**	**Transfer in and/ or out of Level 3**	**Balance December 31, 2009**
U.S. government and agency securities	$ 31	$ -	$ 1	$(3)	$ 15	$ 44
Mortgage and asset-backed securities:						
Residential	4	-	-	-	2	6
Commercial	18	-	2	(1)	(4)	15
Other mortgage and asset-backed securities	44	1	-	(9)	17	53
U.S. state and municipal	9	-	1	(1)	12	21
Corporate and other	781	9	81	72	(95)	848
Foreign government securities	10	-	1	(3)	(1)	7
Total fixed maturities	897	10	86	55	(54)	994
Common stock	110	(5)	8	(16)	(83)	14
Preferred stock	-	-	-	3	-	3
Total equity securities	110	(5)	8	(13)	(83)	17
Short-term investments	73	-	-	(14)	-	59
Other investments	62	(2)	4	(1)	1	64
Separate account assets	188	(1)	5	(3)	(2)	187
Other assets	27	(12)	-	4	-	19
Total assets	$1,357	$(10)	$103	$28	$(138)	$1,340
Life insurance obligations	$(223)	$ -	$ 36	$44	$ -	$(143)
Total liabilities	$(223)	$ -	$ 36	$44	$ -	$(143)

There were no material unrealized gains (losses) for the period included in earnings attributable to the fair value relating to assets and liabilities classified as Level 3 that are still held as of December 31, 2010 and 2009.

For the years ended December 31, 2010, 2009, and 2008, there were impairments of $26, $22, and $29, respectively, recognized for items measured at fair value on a nonrecurring basis (principally direct investments in oil and gas production ventures, which are based on independent external studies). Impairment charges for the above are reflected in insurance operating costs and expenses in the consolidated statements of income.

The Company did not have significant transfers between Levels 1 and 2 during the year ended December 31, 2010.

Transfers in and/or out of Level 3 during the years ended December 31, 2010 and 2009 were due to re-evaluation of the observability of pricing inputs.

The Company has elected to apply the fair value option to certain financial instruments in limited circumstances. The fair value option election is made on an instrument by instrument basis. All periodic changes in the fair value of the elected instruments are reflected in the income statement. The impact of the fair value option elections are immaterial to the Company.

The Company has not applied ASC 820 to non-financial assets and liabilities.

(10) COMMITMENTS AND CONTINGENT LIABILITIES

Various lawsuits against the Company have arisen in the normal course of business. Contingent liabilities arising from litigation, income taxes, and other matters are not considered material in relation to the financial position of the Company.

As of December 31, 2010, the Company had unfunded capital commitments related to traditional private equity partnerships of $905, other partnerships (primarily energy) of $1,154, and real estate partnerships of $346.

As of December 31, 2010, the Company had commitments to purchase various mortgage-backed securities settling in 2011, at a cost of $84 with a fair value of $84, which are included as fixed maturities in the consolidated balance sheets.

(11) SUBSEQUENT EVENTS

Management has assessed material subsequent events through February 16, 2011, the date of the fourth quarter earnings release.

On December 30, 2010, the Venezuelan government announced the elimination of the 2.6 Bolivar Fuertes (BsF) to 1 U.S. dollar preferential exchange rate effective January 1, 2011, which was applicable to imports of food, medicine, and other essential items. The elimination of the preferential exchange rate resulted in an increase of $147 to equity.