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

Year Ended December 31, 2010

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

The following discussion highlights significant factors influencing results of operations and changes in financial position of Liberty Mutual Holding Company Inc., the parent corporation of the Liberty Mutual Group of companies (the "Company" or "LMG"), for the three and twelve months ended December 31, 2010 and 2009. This Management's Discussion & Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the Company's 2009 Annual Report, 2010 Unaudited Consolidated Financial Statements and Fourth Quarter 2010 Financial Supplement located on the Company's Investor Relations website at www.libertymutual.com/investors. The Company's discussions related to net income are presented in conformity with U.S. generally accepted accounting principles ("GAAP") on an after-tax basis. All other discussions are presented on a pre-tax GAAP basis, unless otherwise noted.

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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 December 31, 2010 - Consolidated Results of Operations

- Revenues for the three months ended December 31, 2010 were $8.550 billion, an increase of $608 million or 7.7% over the same period in 2009.
- Net written premium for the three months ended December 31, 2010 was $6.979 billion, a decrease of $140 million or 2.0 % from the same period in 2009.
- Pre-tax operating income before private equity income for the three months ended December 31, 2010 was $515 million, a decrease of $13 million or 2.5% from the same period in 2009.
- Pre-tax operating income for the three months ended December 31, 2010 was $679 million, an increase of $164 million or 31.8% over the same period in 2009.
- Net income for the three months ended December 31, 2010 was $576 million, an increase of $103 million or 21.8% over the same period in 2009.
- Cash flow from operations for the three months ended December 31, 2010 was $1.007 billion, an increase of $88 million or 9.6% over the same period in 2009.
- The combined ratio before catastrophes[1], net incurred losses attributable to prior years[2] and current accident year re-estimation for the three months ended December 31, 2010 was 98.9%, a decrease of 0.9 points from the same period in 2009. 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 December 31, 2010 increased 0.5 points to 99.4%.

Twelve Months Ended December 31, 2010 - Consolidated Results of Operations

- Revenues for the twelve months ended December 31, 2010 were $33.193 billion, an increase of $2.099 billion or 6.8% over the same period in 2009.
- Net written premium for the twelve months ended December 31, 2010 was $29.191 billion, an increase of $933 million or 3.3% over the same period in 2009.
- Pre-tax operating income before private equity income for the twelve months ended December 31, 2010 was $1.515 billion, a decrease of $80 million or 5.0% from the same period in 2009.
- Pre-tax operating income for the twelve months ended December 31, 2010 was $1.913 billion, an increase of $729 million or 61.6% over the same period in 2009.

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[1] Catastrophes include all current and prior year catastrophe losses including assessments from the Texas Windstorm Insurance Association ("TWIA") and exclude losses related to the Company's external reinsurance assumed lines (assumed voluntary reinsurance and reinsurance assumed through Lloyd's Syndicate 4472) except for losses related to the events of September 11, 2001, the 2004 U.S. Hurricanes, the 2005 U.S. Hurricanes and the September 2008 Hurricanes. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

[2] Net incurred losses attributable to prior years is defined as incurred losses attributable to prior years (excluding prior year losses related to natural catastrophes and the events of September 11, 2001) including both earned premium attributable to prior years and amortization of retroactive reinsurance gains.

- Net income for the twelve months ended December 31, 2010 was $1.678 billion, an increase of $655 million or 64.0% over the same period in 2009.

- Cash flow from operations for the twelve months ended December 31, 2010 was $2.761 billion, an increase of $274 million or 11.0% over the same period in 2009.

- The combined ratio before catastrophes and net incurred losses attributable to prior years for the twelve months ended December 31, 2010 was 98.4%, a decrease of 0.7 points from the same period in 2009. Including the impact of catastrophes and net incurred losses attributable to prior years, the Company's combined ratio for the twelve months ended December 31, 2010 increased 1.4 points to 101.3%.

Financial Condition as of December 31, 2010

- Total assets were $112.350 billion as of December 31, 2010, an increase of $2.875 billion over December 31, 2009.

- Policyholders' equity was $16.978 billion as of December 31, 2010, an increase of $2.464 billion over December 31, 2009.

Subsequent Events

- 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 million to policyholders' equity in the first quarter of 2011.

CONSOLIDATED RESULTS OF OPERATIONS

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

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

Effective January 1, 2010, the Company's Venezuelan operations began applying hyper-inflationary accounting, utilizing the U.S. dollar as the functional currency, which had no impact on consolidated policyholders' equity at January 1, 2010. However, on January 8, 2010, the Venezuelan government devalued its currency, announcing that the fixed official exchange rate would be changed to a dual exchange rate system. This dual exchange rate system for the fixed official exchange rate includes a 2.60 Bolivar Fuerte (BsF) rate to 1 U.S. dollar for food and other items as mandated by the Venezuelan government, and a 4.30 BsF to 1 U.S. dollar rate for all other items. The impact of the devaluation accounting on pre-tax operating income in the quarter and the year ended December 31, 2010 was a decrease of $13 million and an increase of $112 million, respectively.

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

Effective in the third quarter of 2010, for financial reporting purposes, Liberty Mutual Agency Corporation ("LMAC") became a Strategic Business Unit of Liberty Mutual Group replacing the former Agency Markets Strategic Business Unit. The financial results of LMAC differ from Agency Markets' results principally due to LMAC maintaining a dedicated investment portfolio, the inclusion of the impact of a homeowners quota share treaty effective December 31, 2008 through December 31, 2009, the results of which were previously shown in the Corporate and Other segment, and certain expenses incurred that are specific to LMAC. As such, results of LMAC are not directly comparable to the previously reported financial information for Agency Markets. All historical results have been restated to reflect this change.

Overview – Consolidated

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

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2010**	**2009**	**Change**	**2010**	**2009**	**Change**
Private passenger automobile	$2,585	$2,476	4.4%	$10,231	$9,814	4.2%
Workers compensation	734	947	(22.5)	3,698	4,025	(8.1)
Homeowners	721	799	(9.8)	2,928	2,388	22.6
Commercial multiple peril / fire	551	529	4.2	2,385	2,333	2.2
International local businesses	494	514	(3.9)	1,800	1,862	(3.3)
Commercial automobile	354	359	(1.4)	1,540	1,543	(0.2)
LIU[1] reinsurance	255	194	31.4	1,200	983	22.1
General liability	260	226	15.0	1,194	1,148	4.0
Surety	165	169	(2.4)	731	707	3.4
Group disability and life	178	154	15.6	693	607	14.2
LIU third party	203	189	7.4	686	702	(2.3)
LIU inland marine program	109	154	(29.2)	606	627	(3.3)
LIU first party	80	81	(1.2)	311	290	7.2
Individual life	72	95	(24.2)	266	313	(15.0)
Assumed voluntary reinsurance	44	54	(18.5)	182	179	1.7
Other[2]	174	179	(2.8)	740	737	0.4
Total NWP[3]	$6,979	$7,119	(2.0%)	$29,191	$28,258	3.3%

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

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

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2010**	**2009**	**Change**	**2010**	**2009**	**Change**
LMAC[1]	$2,548	$2,587	(1.5%)	$10,549	$10,148	4.0%
International	1,914	1,949	(1.8)	7,244	7,080	2.3
Personal Markets	1,617	1,536	5.3	6,776	6,346	6.8
Commercial Markets[1]	1,098	992	10.7	5,183	5,092	1.8
Corporate and Other[2]	(198)	55	NM	(561)	(408)	37.5
Total net written premium (NWP)	$6,979	$7,119	(2.0%)	$29,191	$28,258	3.3%
Foreign exchange effect on growth, excluding Venezuelan devaluation			(0.1%)			0.5%
Venezuelan devaluation			(5.0)			(3.8)
Total foreign exchange effect on growth			(5.1)			(3.3)
NWP growth excluding foreign exchange and Venezuelan devaluation			3.1%			6.6%

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

Major drivers of net written premium growth were as follows:

$ in Millions	Three Months Ended December 31, 2010	2009	$ Change	Points Attribution	Twelve Months Ended December 31, 2010	2009	$ Change	Points Attribution
LMG NWP	$6,979	$7,119	($140)	(2.0)	$29,191	$28,258	$933	3.3
Components of Growth:								
-Domestic homeowners	878	810	68	1.0	3,565	3,223	342	1.2
-Homeowners quota share Personal Markets	(157)	(142)	(15)	(0.2)	(637)	(609)	(28)	(0.1)
-Homeowners quota share LMAC	-	131	(131)	(1.9)	-	(226)	226	0.8
Total Homeowners	721	799	(78)	(1.1)	2,928	2,388	540	1.9
International local businesses (excluding foreign exchange)	1,626	1,321	305	4.3	5,494	4,564	930	3.3
Foreign exchange and Venezuelan devaluation	(363)	-	(363)	(5.1)	(943)	-	(943)	(3.3)
Domestic personal auto	1,815	1,669	146	2.1	7,508	7,112	396	1.4
Group disability and life	178	154	24	0.3	693	607	86	0.3
Surety	165	169	(4)	(0.1)	731	707	24	0.1
Individual life	72	95	(23)	(0.3)	266	313	(47)	(0.2)
Other commercial lines	2,765	2,912	(147)	(2.1)	12,514	12,567	(53)	(0.2)
Total LMG NWP	$6,979	$7,119	($140)	(2.0)	$29,191	$28,258	$933	3.3

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

$ in Millions	Three Months Ended December 31, 2010	2009	Change	Twelve Months Ended December 31, 2010	2009	Change
U.S.	$5,292	$5,418	(2.3%)	$22,990	$22,210	3.5%
International[1]	1,687	1,701	(0.8)	6,201	6,048	2.5
Total NWP	$6,979	$7,119	(2.0%)	$29,191	$28,258	3.3%

1 Excludes domestically written business in the International SBU.

Net written premium for the three and twelve months ended December 31, 2010 was $6.979 billion and $29.191 billion, a decrease of $140 million and an increase of $933 million versus the same periods in 2009. Significant changes by major line of business include:

- Private passenger automobile net written premium increased $109 million and $417 million in the quarter and year, respectively. The increases in both periods primarily reflect growth of policies in-force in Personal Markets, the introduction of an annual auto product in 2010 and rate increases in LMAC, as well as organic growth in International's local businesses, primarily in Latin America. The increases were partially offset by the foreign exchange decline driven by the Venezuelan devaluation, approximately $183 million and $532 million in the quarter and year, respectively.
- Workers compensation net written premium decreased $213 million and $327 million in the quarter and year, respectively. The decreases in both periods are primarily driven by a decrease in exposures, rate reductions, the impact of continued competitive market conditions and an increase in the Company's workers compensation "booked as billed" adjustment recorded in the fourth quarter. The decrease in the quarter was partially offset by favorable premium adjustments on retrospectively rated policies, favorable audit premium and relatively unchanged exposures as economic conditions stabilized in Commercial Markets.

- Homeowners net written premium decreased $78 million in the quarter and increased $540 million for the year. The decrease in the quarter is primarily driven by the non-renewal of a portion of the homeowners quota share reinsurance treaty in the fourth quarter of 2009 (resulting in a return of unearned ceded written premium), partially offset by higher premiums in Personal Markets and LMAC due to policies in-force growth and rate increases. The increase for the year is primarily driven by the non-renewal of LMAC's portion of the homeowners quota share reinsurance treaty and also due to the previously mentioned increases in Personal Markets and LMAC.
- International local businesses net written premium (excluding private passenger automobile) decreased $20 million and $62 million in the quarter and year, respectively. The decreases in both periods primarily reflect a foreign exchange decline driven by the Venezuelan devaluation (approximately $170 and $550 million) and the weakening of the Euro versus the U.S. dollar, partially offset by the strengthening of other foreign currencies versus the U.S. dollar. The decrease was largely offset by premium growth in Brazil and Venezuela.
- LIU reinsurance net written premium increased $61 million and $217 million in the quarter and year, respectively. The increases primarily reflect growth in certain worldwide reinsurance and contingent lines.
- General liability net written premium increased $34 million and $46 million in the quarter and year, respectively. The increases in both periods reflect new business writings along with increases in the construction segment in Commercial Markets.
- Group disability and life net written premium increased $24 million and $86 million in the quarter and year, respectively. The increases reflect broader penetration of those markets.
- LIU inland marine program net written premium decreased $45 million and $21 million in the quarter and year, respectively. The decreases in both periods reflect an increase in ceded premium due to a change in the structure of certain reinsurance programs.

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

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

Results of Operations – Consolidated

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2010[1]**	**2009[2]**	**Change**	**2010[1]**	**2009**	**Change**
Revenues	$8,550	$7,942	7.7 %	$33,193	$31,094	6.8%
PTOI before catastrophes, net incurred losses attributable to prior years, current accident year re-estimation and private equity income	548	413	32.7	2,321	1,876	23.7
Catastrophes[3,4]	(160)	(95)	68.4	(1,105)	(717)	54.1
Net incurred losses attributable to prior years:						
- Asbestos & environmental[5]	(4)	(24)	(83.3)	(9)	(388)	(97.7)
- All other[6]	151	234	(35.5)	308	824	(62.6)
Current accident year re-estimation[7]	(20)	-	NM	-	-	-
Pre-tax operating income before private equity income	515	528	(2.5)	1,515	1,595	(5.0)
Private equity income (loss) [8]	164	(13)	NM	398	(411)	NM
Pre-tax operating income	679	515	31.8%	1,913	1,184	61.6%
Realized gains, net	110	12	NM	402	26	NM
Income tax expense	(213)	(54)	NM	(637)	(187)	NM
Net income	$576	$473	21.8%	$1,678	$1,023	64.0%
Cash flow from operations	$1,007	$919	9.6%	$2,761	$2,487	11.0%

1 Effective January 1, 2010, the Venezuelan operations of the Company's International SBU began applying hyper-inflationary accounting, utilizing the U.S. dollar as the functional currency.
2 2009 results have been restated for the retrospective accounting change related to the change in the discount rate applied to the long-term indemnity portion of the settled unpaid workers compensation claims.
3 Catastrophes include all current and prior year catastrophe losses including assessments from TWIA and exclude losses related to the Company's external reinsurance assumed lines (assumed voluntary reinsurance and reinsurance assumed through Lloyd's Syndicate 4472) except for losses related to the events of September 11, 2001, the 2004 U.S. Hurricanes, the 2005 U.S. Hurricanes and the September 2008 Hurricanes. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.
4 Catastrophes exclude the catastrophe losses ceded under the homeowners quota share agreement.
5 Net of allowance for uncollectible reinsurance decrease of $50 million and $48 million for the three and twelve months ended December 31, 2010 and an increase of zero and $70 million for the three and twelve months ended December 31, 2009.
6 Net of earned premium attributable to prior years of $40 million and ($64) million for the three and twelve months ended December 31, 2010 and ($14) million and ($85) million for the comparable periods of 2009. Net of amortization of deferred gains on retroactive reinsurance of $2 million and $54 million for the three and twelve months ended December 31, 2010 and $22 million and $74 million for the three and twelve months ended December 31, 2009.
7 Year-end re-estimation of the current accident year loss reserves for the nine months ended September 30, 2010.
8 Private equity income (loss) is included in net investment income in the accompanying statements of income.
NM = Not Meaningful

PTOI for the three and twelve months ended December 31, 2010 was $679 million and $1.913 billion, respectively, increases of $164 million and $729 million over the same periods in 2009. The increases in both periods are driven by private equity income as a result of improved market valuations. The increase in the year also reflects the impact of the Venezuelan devaluation. The increases were partially offset by less favorable development in net incurred losses attributable to prior years and increases in catastrophe related losses in the quarter and year.

Revenues for the three and twelve months ended December 31, 2010 were $8.550 billion and $33.193 billion, respectively, increases of $608 million and $2.099 billion over the same periods in 2009. The major components of revenues are net premium earned, net investment income, net realized investment gains, and fee and other revenues.

Net premium earned for the three and twelve months ended December 31, 2010 was $7.343 billion and $28.699 billion, respectively, increases of $335 million and $908 million over the same periods in 2009. The increases in both periods reflect decreased ceded premium of approximately $111 million and $425 million in the quarter and year, respectively, due to the non-renewal of LMAC's portion of the homeowners quota share treaty and earned premium associated with the other changes in net written premium previously discussed. The increases in both periods were partially offset by foreign exchange decline driven by the Venezuelan devaluation and the weakening of the Euro versus the U.S. dollar, partially offset by the strengthening of the other foreign currencies versus the U.S. dollar. The increases in the year were also partially offset by a reduction in the estimate of prior year earned premium on loss sensitive business in Commercial Markets.

Net investment income for the three and twelve months ended December 31, 2010 was $897 million and $3.328 billion, respectively, increases of $159 million and $846 million over the same periods in 2009. The increases in both periods reflect increases in limited partnerships' and limited liability companies' income of $177 million and $809 million, respectively, as a result of improved valuations.

Net realized investment gains for the three and twelve months ended December 31, 2010 were $110 million and $402 million, respectively, increases of $98 million and $376 million over the same periods in 2009. The increases primarily reflects sales undertaken in connection with the shift in the Company's tactical allocation and a decrease in impairment losses recorded in 2010 due to improved market conditions. Gains on common and preferred stock for the twelve months ended December 31, 2010 include $29 million related to the sale of Verisk Analytics Inc. common stock. For the three and twelve months ended December 31, 2009, equity gains recognized related to the Company's decision to reduce its equity exposure during that period. Other realized gains for twelve months ended December 31, 2009 that did not recur in 2010 include $25 million related to equity swap derivative contracts that terminated in January 2009.

Fee and other revenues for the three and twelve months ended December 31, 2010 were $200 million and $764 million, respectively, an increase of $16 million and a decrease of $31 million versus the same periods in 2009. The increase in the quarter primarily reflects higher oil and gas revenues due to an increase in price and increased production from the Company's energy operations. The decrease in the year is primarily driven by lower commission revenue from the Company's servicing carrier operations due to lower involuntary market premium volume. As a servicing carrier, the Company receives fee income for performing certain underwriting, claims and administrative services for all participating involuntary pool members.

Claims, benefits and expenses for the three and twelve months ended December 31, 2010 were $7.761 billion and $30.878 billion, respectively, increases of $346 million and $994 million over the same periods in 2009. The increases in both periods reflect a decrease in ceded losses and expenses associated with the homeowners quota share reinsurance treaty, business growth in Personal Markets and International's Latin American operations and lower favorable prior year reserve development, partially offset by the Venezuelan devaluation and by an increase in asbestos reserves in 2009 that did not recur. The increase in the quarter also reflects the growth in non-catastrophe losses due to deteriorating workers compensation loss trends.

Income tax expense for the three and twelve months ended December 31, 2010 was $213 million and $637 million, respectively, increases of $159 million and of $450 million over the same periods in 2009. The Company's effective tax rate for the three and twelve months ended December 31, 2010 was 27% and 27%, compared to 10% and 15% for the same periods in 2009. The increase in effective tax rate from 2009 to 2010 was primarily due to a $55 million one-time charge related to the recently enacted federal health care legislation which eliminated the tax benefit associated with Medicare Part D subsidies and increased pre-tax income. The Company's effective tax rate differs from the Federal statutory rate of 35% principally due to tax-exempt investment income and foreign taxes, partially offset by the impact of the tax charge associated with Medicare Part D subsidies.

Net income for the three and twelve months ended December 31, 2010 was $576 million and $1.678 billion, respectively, increases of $103 million and $655 million over the same periods in 2009.

Cash flow from operations for the three and twelve months ended December 31, 2010 was $1.007 billion and $2.761 billion, respectively, increases of $88 million and of $274 million over the same periods in 2009. The increase in the quarter is attributable to lower loss payments in International and Corporate and business growth in Personal Markets. The increase in the year reflects a decrease in ceded premium payments associated with the homeowners quota share treaty, lower catastrophe paid losses, higher premium collections in Personal Markets, partially offset by a large loss payment related to an asbestos claim recorded in the prior year. The increase also reflects lower expenses and higher investment income in LMAC, partially offset by lower premium collections in Commercial Markets and also in International due to the Venezuelan devaluation.

CONSOLIDATED	Three Months Ended December 31, 2010[1]	2009	Change (Points)	Twelve Months Ended December 31, 2010[1]	2009	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	69.8%	70.1%	(0.3)	69.6%	70.3%	(0.7)
Underwriting expense ratio	29.0	29.6	(0.6)	28.6	28.6	-
Dividend ratio	0.1	0.1	-	0.2	0.2	-
Subtotal	98.9	99.8	(0.9)	98.4	99.1	(0.7)
Catastrophes[2]	2.3	1.4	0.9	4.1	2.7	1.4
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	0.4	(0.4)	-	1.2	(1.2)
- All other	(2.1)	(2.7)	0.6	(1.2)	(3.1)	1.9
Current accident year re-estimation[3]	0.3	-	0.3	-	-	-
Total combined ratio[4]	99.4%	98.9%	0.5	101.3%	99.9%	1.4

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

2 Catastrophes include all current and prior year catastrophe losses including assessments from TWIA and exclude losses related to the Company's external reinsurance assumed lines (assumed voluntary reinsurance and LIU reinsurance assumed through Lloyd's Syndicate 4472) except for losses related to the events of September 11, 2001, the 2004 U.S. Hurricanes, the 2005 U.S. Hurricanes and the September 2008 Hurricanes. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

3 Year-end re-estimation of the current accident year loss reserves for the nine months ended September 30, 2010.

4 The combined ratio, expressed as a percentage, is a measure of underwriting profitability. This measure should only be used in conjunction with, and not in lieu of, underwriting income and may not be comparable to other performance measures used by the Company's competitors. The combined ratio is computed as the sum of the following property and casualty ratios: the ratio of claims and claim adjustment expense to earned premium; the ratio to earned premium of insurance operating costs plus amortization of deferred policy acquisition costs less fee income (primarily related to the Company's involuntary market servicing carrier operations and managed care income) and less installment charges; and the ratio of policyholder dividends to earned premium. One-time integration costs related to the acquisition of Safeco, 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 twelve months ended December 31, 2010 was 98.9% and 98.4%, respectively, decreases of 0.9 points and 0.7 points from the same periods in 2009. The decrease in the claims and claim adjustment expense ratio in the quarter reflects improved results in the homeowners and auto physical damage lines of business in Personal Markets and favorable trends in select Latin American countries in International, primarily Brazil, and LIU's reinsurance business partially offset by the impact of deteriorating loss trends, primarily in workers compensation in Commercial Markets and unfavorable commercial lines liability and non-catastrophe property results in LMAC. The decrease in the claims and claim adjustment expense ratio in the year reflects the previously mentioned decreases in Personal Markets and International as well as favorable personal lines property results and lower surety losses in LMAC partially offset by unfavorable trends in the commercial and property product lines and the impact of several large loss events including the Chilean and New Zealand earthquakes on the LIU reinsurance business. The decrease in the underwriting expense ratio in the quarter reflects lower advertising expenditures in Personal Markets and lower net commission expense resulting from a change in the structure of certain reinsurance programs within LIU's inland marine business.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three and twelve months ended December 31, 2010 was 99.4% and 101.3%, respectively, increases of 0.5 points and 1.4 points over the same periods in 2009. The increases in both periods reflect the changes in the combined ratio previously discussed, as well as less favorable net incurred losses attributable to prior years in 2010 compared to 2009, primarily in LMAC and Commercial Markets, and higher catastrophe losses. The increase also reflects unfavorable catastrophe losses and development associated with a re-estimation of current accident year workers compensation losses in the Commercial Markets P&C segment.

LIBERTY MUTUAL AGENCY CORPORATION

Liberty Mutual Agency Corporation delivers personal and commercial insurance products and services to individuals and small to mid-sized businesses through independent agents throughout the United States. Commercial lines products are offered through eight regional insurance companies that combine 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, the Company's subsidiary, 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, the inclusion of the impact of a homeowners quota share treaty effective December 31, 2008 through December 31, 2009, the results of which were previously reflected in the Corporate and Other segment, and certain expenses incurred that are specific to LMAC. As such, results of LMAC are not directly comparable to the previously reported financial information for Agency Markets. All prior periods have been restated to reflect this change.

LMAC net written premium by segment was as follows:

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2010**	**2009**	**Change**	**2010**	**2009**	**Change**
Personal	$1,308	$1,310	(0.2%)	$5,203	$4,689	11.0%
Commercial	1,040	1,063	(2.2%)	4,487	4,585	(2.1%)
Surety	165	169	(2.4%)	731	707	3.4%
Corporate and Other[1]	35	45	(22.2%)	128	167	(23.4%)
Total net written premium	$2,548	$2,587	(1.5%)	$10,549	$10,148	4.0%

1 Includes run-off operations and internal reinsurance.

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

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2010**	**2009**	**Change**	**2010**	**2009**	**Change**
Commercial Lines						
Commercial multiple peril	$442	$447	(1.1%)	$1,855	$1,896	(2.2%)
Commercial automobile	241	255	(5.5%)	1,072	1,119	(4.2%)
Workers compensation	212	213	(0.5%)	906	906	-
Surety	165	169	(2.4%)	731	707	3.4%
General liability	107	111	(3.6%)	480	500	(4.0%)
Other	69	71	(2.8%)	284	289	(1.7%)
Subtotal	$1,236	$ 1,266	(2.4%)	$ 5,328	$5,417	(1.6%)
Personal Lines						
Private passenger automobile	$839	$746	12.5%	$3,264	$ 3,128	4.3%
Homeowners[1]	367	475	(22.7%)	1,513	1,185	27.7%
Other	106	100	6.0%	444	418	6.2%
Subtotal	$1,312	$ 1,321	(0.7%)	$5,221	4,731	10.4%
Total net written premium	$2,548	$2,587	(1.5%)	$ 10,549	$10,148	4.0%

1 Excluding the impact of the homeowners quota share treaty that was discontinued at December 31, 2009, homeowners net written premium grew 6.7% for the three months ended December 31, 2010.

Net written premium for the three and twelve months ended December 31, 2010 was $2.548 billion and $10.549 billion, respectively, a decrease of $39 million and an increase of $401 million versus the same periods in 2009. Both periods in 2009 were impacted by a homeowners quota share treaty that was discontinued at December 31, 2009. Excluding the impact of the homeowners quota share treaty, net written premium increased $92 million and $174 million over the three and twelve months ended December 31, 2009, respectively. The increase in both periods reflects the introduction of an annual private passenger automobile product, rate increases in most lines of business, increased new business and policy retention across the personal product lines, and higher contract and commercial surety bond premium. These items were partially offset by a decline in commercial lines renewal premium (excluding surety) due to a reduction in insured exposures and the impact of negative audit premiums and lower private passenger automobile premium (excluding the annual automobile product) driven by declining retention during 2009 and a shift towards writing higher quality risks (resulting in lower average premium per policy).

Results of Operations – Liberty Mutual Agency Corporation

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2010**	**2009**	**Change**	**2010**	**2009**	**Change**
Revenues	$2,865	$2,716	5.5%	$11,687	$10,937	6.9%
PTOI before catastrophes and net incurred losses attributable to prior years	$273	$321	(15.0%)	$1,311	$1,325	(1.1%)
Catastrophes[1, 2]	(113)	(78)	44.9%	(586)	(445)	31.7%
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	-	-	-	-	-
- All other[3]	98	88	11.4%	282	618	(54.4%)
Pre-tax operating income before private equity income	258	331	(22.1%)	1,007	1,498	(32.8%)
Private equity income (loss)[4]	4	(7)	NM	-	(43)	(100.0%)
Pre-tax operating income[5]	$262	$ 324	(19.1%)	$1,007	$ 1,455	(30.8%)

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.
2 Catastrophes exclude the catastrophe losses ceded under the homeowners quota share agreement.
3 Net of earned premium attributable to prior years.
4 Private equity income (loss) is included in net investment income in the accompanying statements of income.
5 LMAC PTOI excludes a certain intercompany reinsurance agreement related to our run-off business which eliminates in consolidation.
NM = Not Meaningful

PTOI for the three and twelve months ended December 31, 2010 was $262 million and $1.007 billion, respectively, decreases of $62 million and $448 million from the same periods in 2009. The decreases in both periods reflect higher catastrophe losses largely related to hail and other severe weather in the Southwest in the current quarter as well as storms in the Northwest and Midwest states occurring in previous quarters in 2010, higher commercial lines liability and property loss ratios, increased personal lines advertising expenditures, and lower net investment income. These items were partially offset by favorable loss trends across the private passenger automobile and homeowners product lines, lower surety losses, and efficiencies gained through the integration of Safeco operations. Additionally, the year includes less favorable net incurred losses attributable to prior years and lower variable compensation costs.

Revenues for the three and twelve months ended December 31, 2010 were $2.865 billion and $11.687 billion, respectively, increases of $149 million and $750 million over the same periods in 2009. The major components of revenues are net premium earned, net investment income, and net realized gains/(losses).

Net premiums earned for the three and twelve months ended December 31, 2010 were $2.591 billion and $10.316 billion, respectively, increases of $136 million and $333 million over the same periods in 2009. The increases are primarily associated with additional retained premium in 2010 of $115 million and $450 million in the quarter and year, respectively, due to the discontinuation of a homeowners quota share reinsurance treaty and the changes in net written premium previously discussed.

Net investment income for the three and twelve months ended December 31, 2010 was $212 million and $890 million, respectively, decreases of $22 million and $20 million from the same periods in 2009. The decreases in both periods are primarily driven by a lower invested asset base due to an intercompany dividend payment, partially offset by an improvement in limited partnerships' valuations.

Net realized gains for the three and twelve months ended December 31, 2010 were $38 million and $382 million, respectively, increases of $35 million and $435 million over the same periods in 2009. The increases in both periods reflect gains on sales of fixed maturities as part of a dividend payment as well as a decrease in impairment losses due to improved market conditions.

Claims, benefits and expenses for the three and twelve months ended December 31, 2010 were $2.565 billion and $10.421 billion, respectively, increases of $175 million and $863 million over the same periods in 2009. The increases in both periods reflect additional retained losses and expenses of $91 million and $342 million (excluding catastrophes) in the quarter and year, respectively, due to the discontinuation of a homeowners quota share reinsurance treaty, higher catastrophe losses, unfavorable commercial lines liability and property results, increased personal lines advertising expenditures, and general cost increases. These items were partially offset by favorable loss trends across the private passenger automobile and homeowners product lines, lower surety losses (a 22.5% claims and claim adjustment expense ratio which is a 4.5 point improvement over 2009), and efficiencies gained through the integration of Safeco operations. Additionally, the year includes less favorable net incurred losses attributable to prior years, partially offset by lower variable compensation costs.

	Three Months Ended December 31,			**Twelve Months Ended December 31,**		
LIBERTY MUTUAL AGENCY CORPORATION	**2010**	**2009**	**Change (Points)**	**2010**	**2009**	**Change (Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	63.9%	63.1%	0.8	63.4%	63.7%	(0.3)
Underwriting expense ratio	32.2	32.3	(0.1)	31.0	31.5	(0.5)
Dividend ratio	0.2	0.3	(0.1)	0.2	0.2	-
Subtotal	96.3	95.7	0.6	94.6	95.4	(0.8)
Catastrophes[1]	4.3	3.2	1.1	5.7	4.4	1.3
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	-	-	-	-	-
- All other	(3.7)	(3.6)	(0.1)	(2.7)	(6.2)	3.5
Total combined ratio	96.9%	95.3%	1.6	97.6%	93.6%	4.0

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.

The Liberty Mutual Agency Corporation combined ratio before catastrophes and net incurred losses attributable to prior years for the three and twelve months ended December 31, 2010 was 96.3% and 94.6%, respectively, an increase of 0.6 points and a decrease of 0.8 points versus the same periods in 2009. The increase in the claims and claim adjustment expense ratio in the quarter reflects unfavorable commercial lines liability and property results, partially offset by favorable loss trends across the private passenger automobile and homeowners product lines and lower surety losses. The decrease in the claims and claim adjustment expense ratio in the year is driven by favorable personal lines loss results and lower surety losses, partially offset by unfavorable trends in the commercial liability and property product lines. The decrease in the underwriting expense ratio in the year is principally driven by lower variable compensation costs and efficiencies gained through the integration of Safeco operations, partially offset by higher personal lines advertising expenditures.

Including the impact of catastrophes and net incurred losses attributable to prior years the total combined ratio for the three and twelve months ended December 31, 2010 was 96.9% and 97.6%, respectively, increases of 1.6 points and 4.0 points over the same periods in 2009. The increases in both periods reflect higher catastrophe losses largely related to hail and other severe weather in the Southwest in the current quarter as well as storms in the Northwest and Midwest states occurring in previous quarters in 2010. Additionally, the year includes less favorable net incurred losses attributable to prior years.

INTERNATIONAL

Overview – International

International provides insurance products and services through two distinct approaches: local businesses, which sell personal and small commercial lines products, and Liberty International Underwriters ("LIU") which sells specialty commercial lines worldwide. International's local business operations consist of local insurance operations selling property, casualty, health and life insurance products (primarily auto) to individuals and businesses in countries with a large and growing middle class. In Latin America, International operates in Venezuela, Argentina, Colombia, Brazil and Chile. In Asia, International writes business in Singapore, Thailand, Vietnam and China (including Hong Kong). In Europe, International operates in Spain, Portugal, Turkey and Poland. LIU writes casualty, specialty casualty, marine, energy, construction, aviation and property coverages through offices in Asia, Australia, Europe, the Middle East, North America and Latin America. LIU, through its Lloyd's Syndicate 4472, also provides multi-line insurance and reinsurance, including property catastrophe reinsurance, on a worldwide basis.

International net written premium by market segment was as follows:

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2010**	**2009**	**Change**	**2010**	**2009**	**Change**
International Local Businesses Total	$1,267	$1,320	(4.0%)	$4,495	$4,541	(1.0%)
- Latin America	845	903	(6.4%)	2,955	3,010	(1.8%)
- Europe	335	352	(4.8%)	1,234	1,282	(3.7%)
- Asia	87	65	33.8%	306	249	22.9%
Liberty International Underwriters	647	629	2.9%	2,749	2,539	8.3%
Total net written premium (NWP)	$1,914	$1,949	(1.8%)	$7,244	$7,080	2.3%
Foreign exchange effect on growth, excluding Venezuelan devaluation			(0.5%)			1.9%
Venezuelan devaluation			(18.1%)			(15.3%)
Total foreign exchange effect on growth			(18.6%)			(13.4%)
NWP growth excluding foreign exchange and Venezuelan devaluation			16.8%			15.7%

International's major product lines are as follows:

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

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

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2010**	**2009**	**Change**	**2010**	**2009**	**Change**
Local businesses – private passenger auto	$770	$807	(4.6%)	$2,718	$2,698	0.7%
Local businesses – all other[1]	497	513	(3.1%)	1,777	1,843	(3.6%)
LIU reinsurance	254	199	27.6%	1,153	940	22.7%
LIU inland marine program	109	154	(29.2%)	606	627	(3.3%)
LIU third party	200	189	5.8%	675	685	(1.5%)
LIU first party	72	74	(2.7%)	266	252	5.6%
LIU other	12	13	(7.7%)	49	35	40.0%
Total net written premium	$1,914	$1,949	(1.8%)	$7,244	$7,080	2.3%

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

Net written premium for the three and twelve months ended December 31, 2010 was $1.914 billion and $7.244 billion, a decrease of $35 million and an increase $164 million versus the same periods in 2009. The decrease in the quarter reflects foreign exchange decline (approximately $363 million) driven by the Venezuelan devaluation and the weakening of the Euro versus the U.S. dollar, partially offset by the strengthening of other foreign currencies versus the U.S. dollar, as well as an increase in the amount of ceded written premium in LIU's inland marine business primarily due to a change in the structure of certain reinsurance programs. The decrease was largely offset by the organic growth in the local businesses, primarily in Latin America, led by Venezuela (including the impact of inflation), Brazil, and to a lesser extent, Asia, as well as growth in certain lines of LIU's reinsurance business. The increase in the year reflects the previously mentioned growth in the local businesses and LIU's reinsurance business, largely offset by the previously mentioned foreign exchange decline (approximately $945 million), and to a lesser extent, an increase in the amount of ceded written premium in LIU's inland marine and third party businesses primarily due to a change in the structure of certain reinsurance programs.

Results of Operations – International

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2010[1]**	**2009**	**Change**	**2010[1]**	**2009**	**Change**
Revenues	$2,011	$2,071	(2.9%)	$7,928	$7,589	4.5%
PTOI before catastrophes and net incurred losses attributable to prior years	$171	$121	41.3%	$664	$463	43.4%
Catastrophes[2]	(4)	(4)	-	(16)	(16)	-
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	-	-	-	-	-
- All other[3]	20	11	81.8%	92	33	178.8%
Pre-tax operating income	$187	$128	46.1%	$740	$480	54.2%

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

2 Catastrophes include all current and prior year catastrophe losses including assessments from TWIA and exclude losses related to the Company's external reinsurance assumed lines (assumed voluntary reinsurance and reinsurance assumed through Lloyd's Syndicate 4472) except for losses related to the events of September 11, 2001, the 2004 U.S. Hurricanes, the 2005 U.S. Hurricanes and the September 2008 Hurricanes. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

3 Net of earned premium attributable to prior years of $1 million and zero for the three and twelve months ended December 31, 2010, respectively, and $17 million and $20 million for the comparable periods of 2009.

PTOI for the three and twelve months ended December 31, 2010 was $187 million and $740 million, respectively, increases of $59 million and $260 million over the same periods in 2009. The increases in both periods reflect favorable net incurred loss development attributable to prior years, primarily within LIU's reinsurance business. The increase in the year also reflects the impact of the Venezuelan devaluation (approximately $112 million).

Revenues for the three and twelve months ended December 31, 2010 were $2.011 billion and $7.928 billion, respectively, a decrease of $60 million and an increase of $339 million versus the same periods in 2009. The primary components of revenues are net premium earned and net investment income.

Net premium earned for the three and twelve months ended December 31, 2010 was $1.810 billion and $7.156 billion, respectively, a decrease of $63 million and an increase of $323 million versus the same periods in 2009. The movements in both periods reflect the previously mentioned growth in net written premium in 2010 as well as the last quarter of 2009, and foreign exchange decline (approximately $307 million and $531 million in the quarter and year, respectively) driven by the Venezuelan devaluation and the weakening of the Euro versus the U.S. dollar, partially offset by the strengthening of other foreign currencies versus the U.S. dollar.

Net investment income for the three and twelve months ended December 31, 2010 was $149 million and $575 million, respectively, decreases of $10 million and $29 million from the same periods in 2009. The decreases were primarily due to the Venezuelan devaluation and, to a lesser extent, the impact of a decline in yield, partially offset by an increase associated with a higher invested asset base.

Claims, benefits and expenses for the three and twelve months ended December 31, 2010 were $1.812 billion and $7.124 billion, respectively, a decrease of $135 million and an increase of $16 million versus the same periods in 2009. The decrease in the quarter was primarily the result of the Venezuelan devaluation and an increase in favorable net incurred loss development attributable to prior years within LIU's reinsurance business, partially offset by higher current year claims and claims adjustment expenses primarily driven by the organic growth in Latin America. The increase in the year is driven by higher current year claims and claims adjustment expenses primarily as a result of the organic growth in Latin America and an increase in loss activity within LIU's reinsurance business (excluding net incurred losses attributable to prior years) resulting from several large loss events, primarily the Chilean and New Zealand earthquakes. The increase is largely offset by the Venezuelan devaluation and favorable net incurred loss development attributable to prior years within LIU's reinsurance business. The foreign exchange loss, primarily the result of the Venezuelan devaluation, contributed approximately $100 million to the increase in the year.

INTERNATIONAL	Three Months Ended December 31, 2010[1]	2009	Change (Points)	Twelve Months Ended December 31, 2010[1]	2009	Change (Points)
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	67.3%	69.5%	(2.2)	70.1%	70.3%	(0.2)
Underwriting expense ratio	31.8	31.3	0.5	30.8	30.5	0.3
Dividend ratio	-	-	-	-	-	-
Subtotal	99.1	100.8	(1.7)	100.9	100.8	0.1
Catastrophes[2]	0.3	0.2	0.1	0.3	0.2	0.1
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	-	-	-	-	-
- All other	(1.2)	(0.6)	(0.6)	(1.4)	(0.4)	(1.0)
Total combined ratio	98.2%	100.4%	(2.2)	99.8%	100.6	(0.8)

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

2 Catastrophes include all current and prior year catastrophe losses including assessments from TWIA and exclude losses related to the Company's external reinsurance assumed lines (assumed voluntary reinsurance and reinsurance assumed through Lloyd's Syndicate 4472) except for losses related to the events of September 11, 2001, the 2004 U.S. Hurricanes, the 2005 U.S. Hurricanes and the September 2008 Hurricanes. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

The International combined ratio before catastrophes and net incurred losses attributable to prior years for the three and twelve months ended December 31, 2010 was 99.1% and 100.9%, respectively, a decrease of 1.7 points and an increase of 0.1 points versus the same periods in 2009. The decrease in the quarter reflects favorable claims and claims adjustment expense ratios in select countries in Latin America, primarily Brazil, and LIU's reinsurance business, partially offset by an increase in underwriting expense ratio in select countries in Latin America, led by Venezuela due to inflation, partially offset by lower net commission expense within LIU's inland marine business resulting from a change in the structure of certain reinsurance programs. The increase in the year reflects the previously mentioned increase in underwriting expense ratio in select countries in Latin America, partially offset by lower net commission expense within LIU's inland marine and third party businesses resulting from a change in the structure of certain reinsurance programs, as well as the recognition of additional profit commission from certain reinsurance programs within LIU's third party business. Partially offsetting the increase was favorable claims and claims adjustment expense ratios in select countries in Latin America, largely offset by the impact of several large loss events within LIU's reinsurance business including the Chilean and New Zealand earthquakes.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three and twelve months ended December 31, 2010 was 98.2% and 99.8%, respectively, decreases of 2.2 points and 0.8 points from the same periods in 2009. The changes in both periods reflect the previously mentioned changes in the combined ratio and an increase in the amount of favorable net incurred loss development attributable to prior years primarily within LIU's reinsurance 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 and the Internet. Personal Markets' largest source of new business is through its approximately 13,000 sponsored affinity groups (including employers, professional associations and alumni associations, credit unions, and other partnerships).

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

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2010**	**2009**	**Change**	**2010**	**2009**	**Change**
Private passenger automobile	$976	$923	5.7%	$4,242	$3,983	6.5%
Homeowners and other	569	534	6.6%	2,268	2,066	9.8%
Individual life	72	79	(8.9%)	266	297	(10.4%)
Total net written premium	$1,617	$1,536	5.3%	$6,776	$6,346	6.8%

Net written premium for the three and twelve months ended December 31, 2010 was $1.617 billion and $6.776 billion, respectively, increases of $81 million and $430 million over the same periods in 2009.

Private passenger automobile net written premium for the three and twelve months ended December 31, 2010 was $976 million and $4.242 billion, respectively, increases of $53 million and $259 million over the same periods in 2009. The increases in both periods reflect 3.9% policies in-force growth as compared to December 31, 2009 and positive rate action.

Homeowners and other net written premium for the three and twelve months ended December 31, 2010 was $569 million and $2.268 billion, respectively, increases of $35 million and $202 million over the same periods in 2009. The increases in both periods reflect 4.5% homeowners policies in-force growth as compared to December 31, 2009 and positive rate action. Approximately one point of the net written premium growth in each period is attributable to the ongoing GEICO relationship, which allows GEICO to offer the Company’s homeowners products to its automobile prospects and customers. These strong results were achieved while coastal management initiatives reduced the business unit’s coastal exposure from the prior year.

Individual life net written premium for the three and twelve months ended December 31, 2010 was $72 million and $266 million, respectively, decreases of $7 million and $31 million from the same periods in 2009. The decreases in both periods reflect lower structured settlements sales.

Results of Operations – Personal Markets

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2010**	**2009**	**Change**	**2010**	**2009**	**Change**
Revenues	$1,936	$1,814	6.7%	$7,502	$7,001	7.2%
PTOI before catastrophes, net incurred losses attributable to prior years and private equity (loss) income	$283	$172	64.5%	$1,115	$912	22.3%
Catastrophes[1]	(65)	(29)	124.1%	(469)	(317)	47.9%
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	-	-	-	-	-
- All other	18	66	(72.7%)	27	59	(54.2%)
Pre-tax operating income	$236	$209	12.9%	$673	$654	2.9%

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

PTOI for the three and twelve months ended December 31, 2010 was $236 million and $673 million, respectively, increases of $27 million and $19 million over the same periods in 2009. The increases in both periods primarily reflect improved net underwriting results, excluding catastrophes.

Revenues for the three and twelve months ended December 31, 2010 were $1.936 billion and $7.502 billion, respectively, increases of $122 million and $501 million over the same periods in 2009. The major components of revenues are net premium earned and net investment income.

Net premium earned for the three and twelve months ended December 31, 2010 was $1.707 billion and $6.574 billion, respectively, increases of $118 million and $425 million over the same periods in 2009. The increases in both periods reflect the earned premium associated with the changes in net written premium previously discussed.

Net investment income for the three and twelve months ended December 31, 2010 was $201 million and $792 million, respectively, increases of $14 million and $65 million over the same periods in 2009. The increases reflect a higher invested asset base due to the continued investment of cash flow from operations.

Claims, benefits and expenses for the three and twelve months ended December 31, 2010 were $1.702 billion and $6.837 billion, respectively, increases of $101 million and $483 million over the same periods in 2009. The increases in both periods reflect higher non-catastrophe losses and general cost increases from business growth as well as higher catastrophe losses from increased non-hurricane weather events. The increase in the year was also due to favorable catastrophe development in 2009 that did not recur and a 2009 subrogation recovery related to the 2007 California wildfires.

PERSONAL MARKETS	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2010	2009	Change (Points)	2010	2009	Change (Points)
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	64.8%	69.8%	(5.0)	64.1%	65.4%	(1.3)
Underwriting expense ratio	24.0	24.9	(0.9)	24.6	25.0	(0.4)
Dividend ratio	-	-	-	-	-	-
Subtotal	88.8	94.7	(5.9)	88.7	90.4	(1.7)
Catastrophes[1]:	4.0	2.0	2.0	7.4	5.4	2.0
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	-	-	-	-	-
- All other	(1.2)	(2.8)	1.6	(0.4)	(1.0)	0.6
Total combined ratio	91.6%	93.9%	(2.3)	95.7%	94.8%	0.9

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

The Personal Markets combined ratio before catastrophes and net incurred losses attributable to prior years for the three and twelve months ended December 31, 2010 was 88.8% and 88.7%, respectively, decreases of 5.9 points and 1.7 points from the same periods in 2009. The decrease in the claims and claim adjustment expense ratio in both periods relates to improved results in the homeowners and auto physical damage lines of business. The underwriting expense ratio is also lower in both periods. The decrease in the quarter reflects lower advertising expenditures, and the decrease in the year is due to a lower PruPac profit share expense as a result of the non-recurring favorable prior year catastrophe activity from 2009.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three and twelve months ended December 31, 2010 was 91.6% and 95.7%, respectively, a decrease of 2.3 points and an increase of 0.9 points versus the same periods in 2009. The decrease in the quarter reflects changes previously discussed partially offset by higher catastrophes and less favorable net incurred losses attributable to prior years. The increase in the year reflects increased catastrophe losses in 2010 as well as favorable catastrophe development in 2009 that did not recur, partially offset by changes previously discussed.

COMMERCIAL MARKETS

Overview – Commercial Markets

Commercial Markets offers a wide array of property & casualty and group benefits insurance coverages through independent agents, brokers and benefit consultants throughout the United States. Commercial Markets P&C provides commercial lines products and services to mid-sized and large businesses (with an annual cost of risk of $150,000 or more). Group Benefits provides mid-sized and large businesses with short- and long-term disability insurance products and administrative services and group life insurance through Liberty Life Assurance Company of Boston, 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.

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

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

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

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2010[1]**	**2009[1]**	**Change**	**2010[1]**	**2009[1]**	**Change**
Commercial Markets P&C[2]	$771	$648	19.0%	$3,766	$3,676	2.4%
Group Benefits	178	154	15.6%	693	607	14.2%
Summit[1]	75	98	(23.5%)	426	487	(12.5%)
Liberty Mutual Reinsurance	72	90	(20.0%)	295	319	(7.5%)
Other Markets[3]	2	2	-	3	3	-
Total net written premium	$1,098	$992	10.7%	$5,183	$5,092	1.8%

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

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

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2010[1]**	**2009[1]**	**Change**	**2010[1]**	**2009[1]**	**Change**
Workers compensation	$563	$514	9.5%	$2,819	$2,878	(2.1%)
Group disability and life	178	154	15.6%	693	607	14.2%
General liability	107	73	46.6 %	519	465	11.6%
Commercial automobile	109	103	5.8%	451	419	7.6%
Commercial multiple peril / fire	69	53	30.2%	366	342	7.0%
Assumed voluntary reinsurance	37	54	(31.5%)	182	179	1.7%
Other	35	41	(14.6%)	153	202	(24.3%)
Total net written premium	$1,098	$992	10.7%	$5,183	$5,092	1.8%

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

Net written premium for the three and twelve months ended December 31, 2010 was $1.098 billion and $5.183 billion, respectively, increases of $106 million and $91 million over the same periods in 2009. Both periods reflect favorable audit and retrospective rating premium adjustments on workers compensation policies, which occurred in the fourth quarter. The impact of these adjustments in both periods was significantly offset by lower exposures earlier in the year and a mandatory rate reduction in Florida. In addition, continued penetration of the group disability and life markets, growth in general liability premium due to new business writings and increases in the construction segment of Commercial Markets P&C contributed to the increase. Both periods also reflect increases within Commercial Markets P&C commercial automobile and commercial multi-peril/fire lines of business, due to new business growth and improved retention results, respectively. In addition, Other lines net written premium decreased in both periods due in part to the non-renewal of an assumed facultative reinsurance program in October 2009. Furthermore, continued competitive market conditions throughout the year contributed to declining rates across most property and casualty lines. The quarter also reflects a decrease in Assumed voluntary reinsurance net written premium due to a difference in the timing of recording a foreign pro-rata program.

Results of Operations – Commercial Markets

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2010[1]**	**2009[1]**	**Change**	**2010[1]**	**2009[1]**	**Change**
Revenues	$1,666	$1,534	8.6%	$6,331	$6,607	(4.2%)
PTOI before catastrophes, net incurred losses attributable to prior years, and current accident year re-estimation	$68	$62	9.7%	$271	$323	(16.1%)
Catastrophes[2]	8	12	(33.3%)	(53)	(27)	96.3%
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	-	-	-	-	-
- All other[3]	20	58	(65.5%)	60	129	(53.5%)
Current accident year re-estimation[4]	(20)	-	NM	-	-	-
Pre-tax operating income	$76	$132	(42.4%)	$278	$425	(34.6%)

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

2 Catastrophes include all current and prior year catastrophe losses including assessments from TWIA and exclude losses related to the Company's assumed voluntary reinsurance except for losses related to the events of September 11, 2001, the 2004 U.S. Hurricanes, the 2005 U.S. Hurricanes and the September 2008 Hurricanes. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

3 Net of earned premium attributable to prior years of $37 million and ($75) million for the three and twelve months ended December 31, 2010, and ($27) million and ($38) million for the comparable periods in 2009. Net of amortization of deferred gains on retroactive reinsurance of ($4) million and $34 million for the three and twelve months ended December 31, 2010 and $16 million and $53 million for the comparable periods in 2009.

4 Year-end re-estimation of the current accident year loss reserves for the nine months ended September 30, 2010.

NM = Not Meaningful

PTOI for the three and twelve months ended December 31, 2010 was $76 million and $278 million, respectively, decreases of $56 million and $147 million from the same periods in 2009. The decreases in both periods reflect deteriorating loss trends and less favorable development of net incurred losses attributable to prior years, partially offset by favorable group disability and life results and higher net investment income. The decrease in the year also reflects higher acquisition expenses associated with the change in 2009 to entirely third party distributions and higher catastrophe losses. The quarter includes unfavorable loss development associated with a re-estimation of current accident year workers compensation losses in the Commercial Markets P&C segment.

Revenues for the three and twelve months ended December 31, 2010 were $1.666 billion and $6.331 billion, respectively, an increase of $132 million and a decrease of $276 million versus the same periods in 2009. The major components of revenues are net premium earned, net investment income and fee and other revenues.

Net premium earned for the three and twelve months ended December 31, 2010 was $1.368 billion and $5.144 billion, respectively, an increase of $131 million and a decrease of $261 million versus the same periods in 2009. Both periods reflect increases in net written premium during 2010 in the group disability and life lines of business and increases in net written premium during the last three quarters of 2010 in the Commercial Markets P&C segment. The quarter also reflects an increase in the estimate of retrospectively rated premium associated with prior years' exposures. For the year, these increases were more than offset by decreases in net written premium from 2009 and the first quarter of 2010 and a reduction in the estimate of prior year earned premium on loss sensitive business.

Net investment income for the three and twelve months ended December 31, 2010 was $231 million and $922 million, respectively, increases of $3 million and $14 million over the same periods in 2009. The increases primarily reflect a higher invested asset base due to the continued investment of cash flow from operations.

Fee and other revenues for the three and twelve months ended December 31, 2010 were $68 million and $267 million, respectively, decreases of $2 million and $28 million from the same periods in 2009. The decreases 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. Also contributing to the decreases was lower fee revenue from Helmsman Insurance Agency due to the change in the Middle Market distribution structure.

Claims, benefits, and expenses for the three and twelve months ended December 31, 2010 were $1.591 billion and $6.055 billion, respectively, an increase of $188 million and a decrease of $128 million versus the same periods in 2009. Both periods reflect less favorable development of net incurred losses attributable to prior years and increased commission expenses, partially offset by reductions in compensation-related expenses and claim adjustment expenses. The increased commission expenses and reduced compensation-related expenses are mainly due to the change in the Middle Market distribution structure. The decrease in the year reflects declines in non-catastrophe losses due to lower business in–force, partially offset by increased property-related catastrophe losses and assumed voluntary reinsurance losses. The increase in the quarter reflects higher net earned premium, deteriorating loss trends, primarily in workers compensation, and unfavorable loss development associated with a re-estimation of current accident year workers compensation losses in the Commercial Markets P&C segment.

	Three Months Ended December 31,			**Twelve Months Ended December 31,**		
COMMERCIAL MARKETS	**2010[1]**	**2009[1]**	**Change (Points)**	**2010[1]**	**2009[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	87.5%	85.2%	2.3	85.9%	85.0%	0.9
Underwriting expense ratio	24.4	24.5	(0.1)	24.4	22.5	1.9
Dividend ratio	0.3	0.2	0.1	0.6	0.7	(0.1)
Subtotal	112.2	109.9	2.3	110.9	108.2	2.7
Catastrophes[2]	(0.7)	(1.1)	0.4	1.2	0.5	0.7
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	-	-	-	-	-
- All other	(2.1)	(5.2)	3.1	(1.2)	(2.6)	1.4
Current accident year re-estimation[3]	1.8	-	1.8	-	-	-
Total combined ratio	111.2%	103.6%	7.6	110.9%	106.1%	4.8

1 Effective January 1, 2010, results associated with Summit, previously included in LMAC, are included in Commercial Markets. The prior periods have been restated to reflect this change.
2 Catastrophes include all current and prior year catastrophe losses including assessments from TWIA and exclude losses related to the Company's assumed voluntary reinsurance except for losses related to the events of September 11, 2001, the 2004 U.S. Hurricanes, the 2005 U.S. Hurricanes and the September 2008 Hurricanes. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.
3 Year-end re-estimation of the current accident year loss reserves for the nine months ended September 30, 2010.

The Commercial Markets combined ratio before catastrophes and net incurred losses attributable to prior years for the three and twelve months ended December 31, 2010 was 112.2% and 110.9%, respectively, increases of 2.3 points and 2.7 points over the same periods in 2009. Both periods reflect the impact of deteriorating loss trends, primarily in workers compensation. The increase in the year also includes an increase in assumed voluntary reinsurance losses in 2010 related to the Chilean earthquake, European winter storm Xynthia, New Zealand earthquake, and U.S hailstorms, partially offset by decreases in property-related non-catastrophe losses. The increase in the underwriting expense ratio in the year primarily reflects an increase in the commission ratio due to the change in the Middle Market distribution structure.

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 twelve months ended December 31, 2010 was 111.2% and 110.9%, respectively, increases of 7.6 points and 4.8 points over the same periods in 2009. The increases in both periods reflect the changes in the combined ratio previously discussed as well as less favorable net incurred losses attributable to prior years driven by favorable development in 2009 related to the involuntary market workers compensation pools and Summit workers compensation that did not recur. The increase in the year also reflects higher catastrophe losses. The quarter includes less favorable catastrophe losses and unfavorable loss development associated with a re-estimation of current accident year workers compensation losses in the Commercial Markets P&C segment.

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 PruPac, pre-2004 Commercial Markets assumed voluntary reinsurance business and Commercial Markets pre-2005 fully insured workers compensation business.

- Interest expense on the Company's outstanding debt.

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

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

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

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

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

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

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

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

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2010**	**2009**	**Change**	**2010**	**2009**	**Change**
Reinsurance, net	($152)	($175)	(13.1%)	($515)	($633)	(18.6%)
Workers compensation[1]	(47)	211	NM	(58)	205	NM
Other	1	19	(94.7)	12	20	(40.0)
Total net written premium	($198)	$55	NM	($561)	($408)	37.5

[1] Booked as billed adjustment
NM = Not Meaningful

Net written premium for the three and twelve months ended December 31, 2010 was ($198) million and ($561) million, respectively, decreases of $253 million and $153 million from the same periods in 2009. The decreases in both periods were primarily due to an increase in the Company's workers compensation "booked as billed" adjustment, partially offset by a decrease in ceded premium related to the restructuring of internal and external treaties in the Company's reinsurance program.

Results of Operations – Corporate and Other

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2010**	**2009[1]**	**Change**	**2010**	**2009**	**Change**
Revenues	$72	($193)	NM	($255)	($1,040)	(75.5%)
Pre-tax operating loss before catastrophes, net incurred losses attributable to prior years and private equity income (loss):	($247)	($263)	(6.1)	($1,040)	($1,147)	(9.3)
Catastrophes[2,3]	14	4	NM	19	88	(78.4)
Net incurred losses attributable to prior years:						
- Asbestos & environmental[4]	(4)	(24)	(83.3)	(9)	(388)	(97.7)
- All other[5, 6]	(5)	11	NM	(153)	(15)	NM
Pre-tax operating loss before private equity (loss)[7]	(242)	(272)	(11.0)	(1,183)	(1,462)	(19.1)
Private equity income (loss)[8]	160	(6)	NM	398	(368)	NM
Pre-tax operating loss	($82)	($278)	(70.5)	($785)	($1,830)	(57.1)

1 2009 results have been restated for the retrospective accounting change related to the change in the discount rate applied to the long-term indemnity portion of the settled unpaid workers compensation claims.
2 Catastrophes include all current and prior year catastrophe losses including assessments from TWIA and exclude losses related to the Company's external reinsurance assumed lines (assumed voluntary reinsurance and reinsurance assumed through Lloyd's Syndicate 4472). Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums of zero and $6 million for the three and twelve months ended December 31, 2010 and zero and $2 million for the comparable periods of 2009.
3 Catastrophes exclude the catastrophe losses ceded under the homeowners quota share agreement.
4 Net of allowance for uncollectible reinsurance decrease of $50 million and $48 million for the three and twelve months ended December 31, 2010, versus zero and an increase of $70 million for the comparable periods of 2009.
5 Net of amortization of deferred gains on retroactive reinsurance of $6 million and $21 million for the three and twelve months ended December 31, 2010, and $5 million and $20 million for the comparable periods of 2009.
6 Corporate and Other net incurred losses attributable to prior years includes presentational adjustments for results previously reported in the former Agency Markets SBU.
7 PTOI excludes a certain intercompany reinsurance agreement related to LMAC run-off business which eliminates in consolidation.
8 Private equity income (loss) is included in net investment income in the accompanying statements of income.
NM = Not Meaningful

Pre-tax operating loss for the three and twelve months ended December 31, 2010 was $82 million and $785 million, respectively, decreases of $196 million and $1.045 billion from the same periods in 2009. The decreases in both periods were primarily driven by an increase in limited partnerships' and limited liability companies' income as a result of improved equity valuations over the same periods in 2009, higher oil and gas revenues, lower corporate expenses primarily related to employee pension benefits, a decrease in the interest expense related to the maturity of a surplus note and the early extinguishment of debt in 2009, and the restructuring of the Company's reinsurance program. The decrease in the year also reflects an increase in asbestos reserves in 2009 that did not recur, partially offset by gains on the early extinguishment of debt in 2009 that did not recur, unfavorable variable annuity reserve development versus favorable development in 2009, unfavorable prior year development related to LMAC run-off business, and internally assumed losses on the Company's reinsurance program related to the Chilean earthquake.

Revenues for the three and twelve months ended December 31, 2010 were $72 million and ($255) million, respectively, increases of $265 million and $785 million over the same periods in 2009. The major components of revenues include net premium earned, net investment income, net realized gains (losses), and fee and other revenues.

Net premium earned for the three and twelve months ended December 31, 2010 was ($133) million and ($491) million, respectively, increases of $13 million and $88 million over the same periods in 2009. The increases in both periods reflect the earned premium associated with the changes in reinsurance net written premium previously discussed.

Net investment income for the three and twelve months ended December 31, 2010 was $104 million and $149 million, respectively, increases of $174 million and $816 million over the same periods in 2009. The increases in both periods reflect increases in limited partnerships' and limited liability companies' income of $166 million and $766 million, respectively, as a result of improved valuations.

Net realized investment gains (losses) for the three and twelve months ended December 31, 2010 were $63 million and ($34) million, respectively, an increase of $53 million and a decrease of $120 million versus the same periods in 2009. The increase in the quarter reflects a decrease in impairment losses recorded in 2010 due to improving market conditions, coupled with fixed maturity gains related to the shift in the Company's tactical allocation. The decrease in the year represents gains related to intercompany dividends between LMAC and affiliates, which are eliminated in consolidation through Corporate and Other.

Fee and other revenues for the three and twelve months ended December 31, 2010 were $38 million and $121 million, respectively, increases of $25 million and $1 million over the same periods in 2009. The increases primarily reflect higher oil and gas revenues due to higher prices and increased production, offset by gains on the early extinguishment of debt in 2009 that did not recur.

Claims, benefits and expenses for the three and twelve months ended December 31, 2010 were $91 million and $441 million, respectively, an increase of $17 million and a decrease of $240 million versus the same periods in 2009. The increase in the quarter is driven by favorable reserve development in 2009 that did not recur. The decrease in the year is driven by an increase in asbestos reserves in 2009 that did not recur and lower corporate expenses primarily related to employee pension benefits, partially offset by unfavorable prior year development related to LMAC run-off business, internally assumed losses on the Company's reinsurance program related to the Chilean earthquake, and unfavorable variable annuity reserve development versus favorable development in 2009.

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 December 31, 2010 and 2009:

$ in Millions	**As of December 31, 2010**		**As of December 31, 2009**	
Invested Assets by Type	**Carrying Value**	**% of Total**	**Carrying Value**	**% of Total**
Fixed maturities, available for sale, at fair value	$58,553	83.9%	$56,439	84.5%
Equity securities, available for sale, at fair value	1,733	2.5	1,188	1.7
Limited partnerships and limited liability companies	2,860	4.1	2,455	3.7
Commercial mortgage loans	1,206	1.7	1,121	1.7
Short-term investments	313	0.4	575	0.9
Other investments	207	0.3	164	0.2
Cash and cash equivalents	4,930	7.1	4,847	7.3
Total Invested Assets	$69,802	100.0%	$66,789	100.0%

Total invested assets as of December 31, 2010 were $69.802 billion, an increase of $3.013 billion or 4.5% over December 31, 2009. The increase reflects an increase in unrealized gains due to a decrease in interest rates and credit spreads, an increase in the valuations of private limited partnerships, and continued investment of cash flows from operations. Partially offsetting these increases were decreases attributable to a valuation decline from foreign exchange largely driven by the Venezuelan devaluation in January 2010.

Fixed maturities as of December 31, 2010 were $58.553 billion, an increase of $2.114 billion or 3.7% over December 31, 2009. The increase reflects fair value increases due to a decrease in interest rates and credit spreads and continued investment of cash flows from operations. These increases were partially offset by valuation declines from foreign exchange as previously discussed.

Equity securities available for sale as of December 31, 2010 were $1.733 billion ($1.230 billion common stock and $503 million preferred stock) versus $1.188 billion as of December 31, 2009 ($688 million common stock and $500 million preferred stock), an increase of $545 million or 45.9% over December 31, 2009. Of the $1.230 billion of common stock at December 31, 2010, $304 million relates to securities associated with non-guaranteed unit linked products where the policyholder bears the investment risk. The increase in total equity securities available for sale is consistent with a shift in the Company's tactical allocation as well as the broader equity market performance.

Investments in limited partnerships and limited liability companies as of December 31, 2010 were $2.860 billion, an increase of $405 million or 16.5% over December 31, 2009. These investments consist of traditional private equity partnerships of $1.778 billion, other partnerships (primarily energy) of $669 million, and real estate partnerships of $413 million. The increase primarily 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 December 31, 2010 were $1.206 billion (net of $14 million of loan loss reserves or 1.2% of the outstanding loan portfolio), an increase of $85 million or 7.6% over December 31, 2009. The increase primarily reflects $138 million of new loans partially offset by $45 million in principal repayments and an increase of $8 million to the loan loss reserves. The entire commercial loan portfolio is U.S. based. As of December 31, 2010, 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 2,469 at December 31, 2009 to 2,948 at December 31, 2010. Approximately 90% of the loans are full or partial recourse to borrowers.

Short-term investments as of December 31, 2010 were $313 million, a decrease of $262 million or 45.6% from December 31, 2009. This decrease primarily reflects the maturity of assets re-invested in cash equivalents and fixed maturity assets.

Cash and cash equivalents as of December 31, 2010 were $4.930 billion, an increase of $83 million or 1.7% over December 31, 2009.

Regarding fair value measurements, as of December 31, 2010, excluding separate accounts and other assets, the Company reflected $3.483 billion as level 1 (quoted prices in active markets) primarily consisting of U.S. Treasuries and common equity securities. The majority of the Company's invested assets are reported as level 2 (quoted prices from other observable inputs). As of December 31, 2010, the Company reported $56.017 billion as level 2, consisting primarily of various fixed maturity securities. Finally, the Company reported $1.268 billion as level 3 (unobservable inputs), primarily consisting of international and privately held securities for which a market price is not readily observable.

As of December 31, 2010, the Company had unfunded commitments in traditional private equity partnerships, real estate, and energy and other of $905 million, $346 million and $1.154 billion, respectively. As of December 31, 2010, the Company had commitments to purchase various residential mortgage-backed securities at a cost and fair value of $84 million.

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.

The following table summarizes the Company's available for sale portfolio by security type as of December 31, 2010 and 2009:

$ 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

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

The following table summarizes the Company's mortgage and asset-backed fixed maturity portfolio by credit quality as of December 31, 2010:

$ in Millions	**As of December 31, 2010**							
Mortgage & Asset-Backed Fixed Maturities by Credit Quality	**AAA**	**AA**	**A**	**BBB**	**BB**	**B or Lower**	**Total**	**% of Total**
SBA loans	$1,449	$-	$-	$-	$-	$-	$1,449	10.2%
GNMA residential mortgage	3,205	-	-	-	-	-	3,205	22.5
FNMA residential mortgage	2,905	-	-	-	-	-	2,905	20.4
FHLMC residential mortgage	3,241	-	-	-	-	-	3,241	22.7
Prime residential mortgage	158	40	-	-	-	238	436	3.1
Alt-A residential mortgage	61	9	-	-	-	130	200	1.4
Sub-prime residential mortgage	5	4	11	8	6	12	46	0.3
Commercial mortgage backed securities	2,301	148	10	14	-	-	2,473	17.3
Non-mortgage asset backed securities	199	22	27	33	8	10	299	2.1
Total	$13,524	$223	$48	$55	$14	$390	$14,254	100.0%
% of Total	94.9%	1.6%	0.3%	0.4%	0.1%	2.7%	100.0%	

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.

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

$ in Millions	**As of December 31, 2010**		**As of December 31, 2009**	
Fixed Maturities by Credit Quality[1]	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
AAA	$23,169	39.6%	$24,896	44.2%
AA+, AA, AA-	9,749	16.6	10,185	18.0
A+, A, A-	10,350	17.7	10,206	18.1
BBB+, BBB, BBB-	9,100	15.5	6,599	11.7
BB+, BB, BB-	2,730	4.7	2,089	3.7
B+, B, B-	2,553	4.4	1,767	3.1
CCC or lower	902	1.5	697	1.2
Total fixed maturities	$58,553	100%	$56,439	100%

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

The Company's allocation to investment grade securities decreased to 89% at December 31, 2010 from 92% at December 31, 2009. The decrease in investment grade bonds was related to the tactical decision to shorten the average duration of the investment portfolio. In order to mitigate the potential impact of the duration shortening on investment income, management increased the allocation to non-investment grade securities. Overall, the average credit quality rating stands at A+ as of December 31, 2010. The Company's holdings of below investment grade securities primarily consist of an actively managed diversified portfolio of high yield securities and loans within the domestic insurance portfolios and

investments in emerging market sovereign and corporate debt primarily in support of the Company's international insurance companies.

The following table summarizes the Company's allocation of fixed maturities by maturity date as of December 31, 2010 and 2009:

$ in Millions	As of December 31, 2010		As of December 31, 2009	
Fixed Maturities by Maturity Date	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
1 year or less	$2,458	4.2%	$2,556	4.5%
Over 1 year through 5 years	16,408	28.0	12,678	22.5
Over 5 years through 10 years	13,391	22.9	10,633	18.8
Over 10 years	12,042	20.6	15,521	27.5
Mortgage and asset-backed securities	14,254	24.3	15,051	26.7
Total fixed maturities	$58,553	100%	$56,439	100%

During 2010, after taking into consideration changes in investment opportunities and its view of the current and prospective business and economic environment, the Company continued to shorten the average duration of its investment portfolio.

Net Investment Income

The following table summarizes the Company's net investment income for the three and twelve months ended December 31, 2010 and 2009:

$ in Millions	Three Months Ended December 31,		Twelve Months Ended December 31,	
Net Investment Income	**2010**	**2009**	**2010**	**2009**
Taxable interest income	$622	$604	$2,426	$2,301
Tax-exempt interest income	118	157	539	623
Dividends	11	9	42	41
Limited partnerships and limited liability companies	164	(13)	398	(411)
Commercial mortgage loans	19	18	73	68
Other investment income	4	1	6	9
Gross investment income	938	776	3,484	2,631
Investment expenses	(41)	(38)	(156)	(149)
Net investment income	$897	$738	$3,328	$2,482

Net investment income for the three and twelve months ended December 31, 2010 was $897 million and $3.328 billion, respectively, increases of $159 million and $846 million over the same periods in 2009. The increases in both periods reflect increases in limited partnerships' and limited liability companies' income of $177 million and $809 million, respectively, as a result of improved valuations. The increase in taxable interest income and the decrease in tax-exempt income reflect a continued shift in the Company's tactical allocation.

Net Realized Investment Gains (Losses)

The following tables summarize the Company's net realized investment gains (losses) for the three and twelve months ended December 31, 2010 and 2009:

$ in Millions **Net Realized Investment Gains (Losses)**	**Sales & Dispositions**	**Impairments**	**Change in Derivatives Value**	**Total**
Three Months Ended December 31, 2010:				
Fixed maturities	$97	($12)	$-	$85
Common and preferred stock	9	-	-	9
Other	15	-	1	16
Total	$121	($12)	$1	$110
Three Months Ended December 31, 2009:				
Fixed maturities	$39	($17)	$-	$22
Common and preferred stock	13	(1)	-	12
Other	(4)	(3)	(15)	(22)
Total	$48	($21)	($15)	$12

$ in Millions **Net Realized Investment Gains (Losses)**	**Sales & Dispositions**	**Impairments**	**Change in Derivatives Value**	**Total**
Twelve Months Ended December 31, 2010:				
Fixed maturities	$395	($46)	$-	$349
Common and preferred stock	50	(1)	-	49
Other	12	(9)	1	4
Total	$457	($56)	$1	$402
Twelve Months Ended December 31, 2009:				
Fixed maturities	$92	($178)	$-	($86)
Common and preferred stock	127	(45)	-	82
Other	28	(8)	10	30
Total	$247	($231)	$10	$26

$ in Millions	**Three Months Ended December 31,**		**Twelve Months Ended December 31,**	
Components of Net Realized Investment Gains (Losses)	**2010**	**2009**	**2010**	**2009**
Fixed maturities:				
Gross realized gains	$103	$45	$421	$173
Gross realized losses	(18)	(23)	(72)	(259)
Equities:				
Gross realized gains	9	13	52	146
Gross realized losses	-	(1)	(3)	(64)
Other:				
Gross realized gains	60	6	73	84
Gross realized losses	(44)	(28)	(69)	(54)
Total net realized investment gains	$110	$12	$402	$26

Net realized investment gains for the three and twelve months ended December 31, 2010 were $110 million and $402 million, respectively, increases of $98 million and $376 million over the same periods in 2009. The increases primarily reflect sales undertaken in connection with the shift in the Company's tactical allocation and a decrease in impairment losses recorded in 2010 due to the improving market conditions. For the three and twelve months ended December 31, 2009, equity gains recognized related to the Company's decision to reduce its equity exposure during that period. Gains on common and preferred stock for the twelve months ended December 31, 2010 include $29 million related to the sale of Verisk Analytics Inc. common stock. Other realized gains for twelve months ended December 31, 2009 that did not recur in 2010 include $25 million related to equity swap derivative contracts that terminated in January 2009.

Effective January 1, 2009, the Company adopted new guidance for accounting for other-than-temporary impairments, as codified in FASB Accounting Standards Codification ("ASC") 320*, Investments – Debt and Equity Securities*. See Footnote 1 to the Unaudited Financial Statements as of and for the year ended December 31, 2010 for details. In the first quarter of 2009, the Company recorded a cumulative effect adjustment, net of income taxes, of $28 million. The adjustment was an increase to policyholders' unassigned equity and a corresponding decrease to accumulated other comprehensive income.

The following table summarizes the Company's unrealized losses and fair value by security type and by duration that individual securities have been in an unrealized loss position as of December 31, 2010, 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	($13)	$571	($-)	$-
Mortgage and asset-backed securities:				
Residential	(14)	1,182	(36)	403
Commercial	(2)	103	(2)	62
Other mortgage and ABS	(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
Total fixed maturities	(253)	9,305	(231)	1,907
Common stock	(8)	178	(15)	98
Preferred stock	(2)	51	(82)	308
Total equities	(10)	229	(97)	406
Total	($263)	$9,534	($328)	$2,313

Unrealized losses decreased from $821 million as of December 31, 2009 to $591 million 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 million at December 31, 2009 to $263 million as of December 31, 2010, an increase of $116 million. Unrealized losses 12 months or longer decreased from $674 million as of December 31, 2009 to $328 million as of December 31, 2010 and accounted for $346 million of the overall decrease in unrealized losses. The Company monitors the difference between the amortized cost and estimated fair value of debt securities to ascertain whether declines in value are temporary in nature. The Company currently does not have the intent to sell these securities and has determined it is not more likely than not that it would be required to sell these fixed income securities before they recover their fair value.

If the Company believes a decline in the value of a particular investment is temporary, the decline is recorded as an unrealized loss in policyholders' equity. If the decline is believed to be other-than-temporary, and the Company believes that it will not be able to collect all cash flows due on its fixed income securities, then the carrying value of the investment is written down to the expected cash flow amount and a realized loss is recorded as a credit impairment. A non-credit impairment loss is recognized in other comprehensive income, net of applicable taxes as the difference between expected cash flow and fair value. For the three and twelve months ended December 31, 2010, the Company recorded $12 million and $46 million, respectively, of fixed maturity impairment losses. The Company has concluded that the remaining gross unrealized losses of fixed maturity securities as of December 31, 2010 are temporary.

For equity securities, if the decline is believed to be other-than-temporary, the carrying value of the investment is written down to fair value and a realized loss is recorded. The gross unrealized losses recorded on equity securities at December 31, 2010 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 December 31, 2010, the Company has concluded that the gross unrealized losses of equity securities as of December 31, 2010 are temporary.

LIQUIDITY AND CAPITAL RESOURCES

General

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

Net cash flows are generally invested in marketable securities while keeping a certain amount in cash and short-term investments to meet unpredictable cash obligations. The Company monitors the duration of these investments, and purchases and sales are executed with the objective of having adequate cash available to satisfy its maturing liabilities. As the Company's investment strategy focuses on overall asset and liability durations, and not specific cash flows, asset sales may be required to satisfy obligations or rebalance asset portfolios. The Company's invested assets as of December 31, 2010 (including cash and cash equivalents) totaled $69.802 billion.

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

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

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

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

$ in Millions	**As of December 31, 2010**	**As of December 31, 2009**
7.25% Notes, due 2012	$204	$204
8.00% Notes, due 2013	260	260
7.86% Medium term notes, due 2013	25	25
5.75% Notes, due 2014	500	500
7.30% Notes, due 2014	200	200
5.588% Mortgage loan due 2015	49	49
6.70% Notes, due 2016	249	249
7.00% 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
Subtotal	5,684	5,684
Unamortized discount	(49)	(49)
Total long-term debt excluding current maturities	$5,635	$5,635

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

As part of its overall capital strategy, the Company previously announced that it may issue, repurchase or exchange debt depending on market 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.

Debt Transactions and In-force Credit Facilities

On May 12, 2010, LMAC entered into a $200 million unsecured revolving credit facility for general corporate purposes with a syndicate of lenders led by Bank of America, N.A. that terminates three years following the date the facility first becomes available. 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. To date, no funds have been borrowed.

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

Interest Expense

Consolidated interest expense for the three and twelve months ended December 31, 2010 was $111 million and $456 million, decreases of $8 million and $27 million from the same periods in 2009. The decreases reflect the redemption of the 4.875% notes at maturity and debt repurchases that occurred in 2009. As previously discussed, the Company continues to evaluate market conditions and may periodically effect transactions in its debt, subject to applicable limitations. Future debt repurchases may be done through open market or other appropriate transactions.

Holding Company Liquidity and Capital Resources

The Company conducts substantially all of its operations through its wholly owned insurance and service company subsidiaries, and therefore is primarily dependent on dividends, distributions, loans or other payments of funds from these entities to meet its current and future obligations. However, the subsidiaries are separate and distinct legal entities and have no obligation to make funds available to the Company, whether in the form of loans, dividends or other distributions. As of December 31, 2010, the Company, through its downstream subsidiary LMGI, had $4.792 billion of debt outstanding, excluding discount.

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

the 12-month period ending on the preceding December 31. Under the insurance laws of Wisconsin, the domiciliary state of Liberty Mutual Fire Insurance Company ("LMFIC") and Employers Insurance Company of Wausau ("EICOW"), an extraordinary dividend is defined as a dividend whose fair market value, together with other dividends paid within the preceding 12 months, exceeds the lesser of (a) 10% of the insurer's surplus as regards policyholders as of the preceding December 31, or (b) the greater of (1) the insurer's net income for the preceding calendar year, minus realized capital gains for that calendar year, or (2) the aggregate of the insurer's net income for the three preceding calendar years minus realized capital gains for those calendar years and minus dividends paid within the first two of the preceding three calendar years. Changes in the extraordinary dividend regulation of the domiciliary states of LMIC, LMFIC and EICOW could negatively affect LMGI's ability to pay principal and interest on its debt, as could a redomestication, merger or consolidation of LMIC, LMFIC or EICOW to a different domiciliary state.

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

$ in Millions	**RBC Ratio[1]**		**Dividend Capacity[2]**	**Dividends Paid**
RBC Ratios and Dividend Capacity	**2009**	**2008**	**2011**	**2010**
LMIC [3]	479%	402%	$2,922	$140
LMFIC	451%	501%	$120	$15
EICOW	467%	362%	$111	-

[1] Authorized control level risk-based capital as defined by the NAIC.
[2] Represents maximum allowable dividend without prior regulatory approval in the state of domicile.
[3]Any reallocation of surplus between insurance subsidiaries could change the dividend capacity of individual companies within the group. Effective January 1, 2010, the LMIC pooling percentage decreased from 75.0% to 73.8%.

LMGI also has access to the following sources of funding:

- A management services agreement with LMIC pursuant to which LMGI is entitled to collect certain costs plus a management fee for services rendered by LMGI employees.
- Investment management agreements with affiliated entities pursuant to which LMGI is entitled to recover approximately $54 million in annual expenses for investment management services performed by LMGI employees.
- Liberty Corporate Services LLC ("LCS"), which through its subsidiaries collects fees and other revenues, primarily for claims administration and agency services rendered for affiliated and non-affiliated entities. For the three and twelve months ended December 31, 2010, LCS recorded $77 million and $356 million in pre-tax income, respectively.
- Approximately $80 million of annual dividends related to non-redeemable perpetual preferred stock issuances by LMIC and LMFIC.

Statutory Surplus

Statutory surplus as regards policyholders for the combined operations of LMIC and its U.S. affiliates, including international branches, was $16.039 billion and $14.704 billion at December 31, 2010, and December 31, 2009, respectively. The increase in surplus primarily reflects net income of $1.139 billion (the sum of earnings from the Company's 59 domestic insurance companies and dividends from subsidiaries), capital contributions from the parent, LMGI, of $500 million, and unrealized gains of $446 million, partially offset by non-admitted goodwill and goodwill amortization of $493 million, a reduction in net deferred tax assets of $168 million and dividends to stockholders of $155 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:

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

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

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

Adoption of New Accounting Standards

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

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

None of the other accounting standards issued through the fourth quarter of 2010 will have a material impact on the Company. See Note 1 in the Unaudited Consolidated Financial Statements as of and for the twelve months ended December 31, 2010 for further discussion of the Company's policies.

Unpaid Claims and Claim Adjustment Expenses

Reserves for property-casualty unpaid claims and claim adjustment expenses were $48.059 billion and $48.355 billion as of December 31, 2010 and December 31, 2009, respectively. The decrease was due to the ongoing settlement of claims and the impact of foreign exchange partially offset by business growth.

Property-casualty insurance unpaid claims and claim adjustment expenses represent the Company's best estimate of amounts necessary to settle all outstanding claims, including claims that are incurred but not reported as of the reporting date. The Company's reserve projections are based primarily on detailed analysis of the facts in each case, experience with similar cases and various historical development patterns. Consideration is given to such historical patterns as field reserving trends and claims settlement practices, loss payments, pending levels of unpaid claims and product mix, as well as court decisions, economic conditions and public attitudes. All of these factors can affect the estimation of reserves.

Establishing loss reserves, including loss reserves for catastrophic events that have occurred, is an estimation process. Many factors can ultimately affect the final settlement of a claim and, therefore, the necessary reserve. Changes in the law, results of litigation, medical costs, the costs of repair materials, and labor rates can all affect ultimate claim costs. In addition, time can be a critical part of reserving determinations since the longer the span between the incidence of a loss and the payment or settlement of the claim, the more variable the ultimate settlement can be. Accordingly, "short-tail" claims, such as property damage claims, tend to be easier to estimate than "long-tail" claims, such as workers compensation or general liability claims.

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

Asbestos and Environmental

The Company's asbestos and environmental ("A&E") reserves for unpaid claims and claim adjustment expenses, net of reinsurance and including uncollectible reinsurance decreased $390 million from $1.580 billion as of December 31, 2009 to $1.190 billion as of December 31, 2010. The decrease is primarily due to a payment on a large settlement during the period.

In the third quarter of 2009, the Company completed its biennial ground-up asbestos reserve study. The study was completed by a multi-disciplined team of internal claims, legal, reinsurance and actuarial personnel, and it included all major segments of the Company's direct, assumed, and ceded asbestos claims. As part of the internal review, potential exposures of certain policyholders were individually evaluated using the Company's proprietary stochastic model, which is consistent with published actuarial papers on asbestos reserving. Among the factors reviewed in depth by the team of specialists were the type of business, level of exposure, coverage limits, geographic distribution of products, types of injury, state jurisdictions, legal defenses, and reinsurance potential. The remaining policyholders (those with less potential exposure) were evaluated using aggregate methods that utilized information and experience specific to these insureds. The study resulted in an increase to reserves of $383 million, which included an increase of $70 million to the allowance for uncollectible reinsurance. The previous comprehensive study was completed in 2007. Between comprehensive studies, the Company monitors asbestos activity to determine whether or not any adjustment to reserves is warranted. The Company completed its annual study on the environmental claims liability, resulting in immaterial adjustments to held reserves.

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

The estimation of asbestos claims and associated liabilities and the analysis of environmental claims considered prevailing applicable law and certain inconsistencies of court decisions as to coverage, plaintiffs' expanded theories of liability, and the risks inherent in major litigation and other uncertainties, the Company believes that in future periods it is possible that the outcome of the continued uncertainties regarding asbestos and environmental related claims could result in an aggregate 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 $14.310 billion and $14.749 billion at December 31, 2010 and 2009, respectively, net of allowance for doubtful accounts. The decrease is primarily due to significant cash collections and liquidation of certain contracts, partially offset by increases in recoverables due to the Chilean earthquake.

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

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

Approximately 95% of the Company's reinsurance recoverable balance, net of collateral held and including voluntary and involuntary pools and associations, was placed with reinsurers rated A- or better from A.M. Best at December 31, 2010. Collateral held against outstanding gross reinsurance recoverable balances was $5.359 billion and $5.774 billion at December 31, 2010 and December 31, 2009, respectively.

The remaining 5% of the Company's net reinsurance recoverable balance is well diversified. No single reinsurer rated B++ or below by A.M. Best accounts for more than 2% of statutory surplus as regards policyholders. In addition, the average net reinsurance recoverable balance from individual reinsurers rated below A- or not rated by A.M. Best was approximately $1 million as of December 31, 2010.

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

The Company is party to retroactive reinsurance arrangements where a significant portion of the consideration was retained on a "funds held" basis and interest is credited on the balance at a weighted average rate of approximately 7.7% annually. These contracts resulted in deferred gains (including experience related profit accruals of $195 million) that are amortized into income using the effective interest method over the estimated settlement periods. As of December 31, 2010 and 2009, deferred gains

related to these reinsurance arrangements were $550 million and $592 million, respectively, and are included in other liabilities within the consolidated balance sheets. Interest credited to the funds held balances for the years ended December 31, 2010, 2009, and 2008 was $118 million, $117 million, and $115 million, respectively. Deferred gain amortization was $54 million, $72 million, and $77 million 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 billion and $2.019 billion 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 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.

Impairment Losses on Investments

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

The Company reviews fixed income, public equity securities and private equity and private equity co-investment securities for impairment on a quarterly basis. Securities are reviewed for both quantitative and qualitative considerations including, but not limited to: (a) the extent of the decline in fair value below book value, (b) the duration of the decline, (c) significant adverse changes in the financial condition or near term prospects of the investment or issuer, (d) significant change in the business climate or credit ratings of the issuer, (e) general market conditions and volatility, (f) industry factors, and (g) the past impairment of the security holding or the issuer. For fixed income securities where the Company does not expect to recover the entire amortized cost basis of the security, the Company will evaluate whether the other-than-temporary impairment is a credit or a non-credit impairment. The factors considered in making an evaluation for credit versus non-credit other-than-temporary impairment include the following: (a) failure of the issuer of the security to make scheduled interest or principal payments (including the payment structure of the debt security and the likelihood the issuer will be able to make payments that increase in the future), (b) performance indicators of the underlying assets in the security (including default and delinquency rates), (c) vintage, (d) geographic concentration, (e) industry analyst reports, sector credit ratings, and volatility of the security's fair value. In addition, the Company's accounting policy for other-than-temporary impairment recognition requires an other-than-temporary impairment charge be recorded when it is determined the security will be sold or it is more likely than not that the Company will be

required to sell the security before recovery of the security's amortized cost basis (all debt securities and certain preferred equity securities) or the Company's intent and ability to hold certain equity securities for a period of time that is sufficient to allow for any anticipated recovery in fair value.

Subsequent to December 31, 2010, the Company has not recognized any additional material other-than-temporary impairments.

Variable Interest Entities

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

The Company has variable interests in VIEs for which it is not the primary beneficiary and accounts for these VIEs under the equity method in accordance with ASC 323, *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 million and $87 million as of December 31, 2010 and December 31, 2009, respectively and the Company's maximum exposure to loss was $123 million and $99 million 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.

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 December 31, 2010, the Company had no material derivative agreements in place. In August 2008, the Company, as part of its risk management program and diversification strategy, entered into two equity swap agreements with a total notional amount of $335 million. These contracts matured in January 2009 resulting in realized gains of $25 million for the twelve months ended December 31, 2009.

Deferred Acquisition Costs

Total deferred policy acquisition costs were $2.771 billion and $2.636 billion as of December 31, 2010 and December 31, 2009, respectively. Deferred policy acquisition costs are costs that vary with, and are primarily related to, the acquisition of new and renewal insurance and investment contracts that are deferred and amortized over the respective policy terms. Deferred acquisition costs are reviewed annually for recoverability. Investment income is considered in the recoverability assessment. For short-duration insurance contracts, acquisition costs include commissions, underwriting expenses, and premium taxes and

assessments. For long-duration insurance contracts, these costs include first year commissions in excess of annual renewal commissions and variable sales, underwriting and administrative expenses.

Goodwill

Goodwill assets were $4.750 billion and $4.748 billion as of December 31, 2010 and December 31, 2009, respectively. Goodwill is tested for impairment at least annually (performed in the fourth quarter) using a two-step process. The first step is performed to identify potential impairment and, if necessary, the second step is performed for the purpose of measuring the amount of impairment, if any. Impairment is recognized only if the carrying amount is not recoverable from the discounted cash flows using a "market" rate and is measured as the difference between the carrying amount and the implied fair value. No impairments were recorded in 2010 or 2009. Other changes in the carrying amount of goodwill are primarily caused by foreign currency translation adjustments and adjustments to valuation allowances for acquired tax losses.

Deferred Income Taxes

The net deferred income tax asset was $796 million and $1.691 billion as of December 31, 2010 and December 31, 2009, respectively, net of a valuation allowance of $153 million and $160 million, respectively. The net decrease in the Company's net deferred income tax asset is primarily due to the change in net unrealized capital gains and losses on certain investments and a non-recurring charge due to a tax law change. The overall decrease in the valuation allowance is primarily due to the dissolution of a foreign subsidiary offset by net operating losses generated in certain foreign subsidiaries where there is uncertainty in the timing and amount of the realization of these 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 likelihood of generating future taxable income.

The income tax provision is calculated under the liability method. Deferred tax assets and liabilities are recorded based on the difference between the financial statement and tax bases of assets and liabilities at the enacted tax rates. The principal assets and liabilities giving rise to such differences are net unrealized capital gains and losses on certain investments, insurance loss reserves, unearned premiums, deferred policy acquisition costs, employee benefits, net operating losses and intangible assets.

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

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

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

Included in the balance at December 31, 2010, is $160 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 years ended December 31, 2010 and 2009, the Company recognized approximately $(2) million and $18 million in interest and penalties, respectively. The Company had approximately $80 million and $82 million of interest and penalties accrued at December 31, 2010 and December 31, 2009, respectively.

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

The IRS has completed its review of the Company's federal income tax returns through the 1998 tax year and is currently reviewing income tax returns for the 1999 through 2007 tax years. Any adjustments that may result from the IRS 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.

About the Company

Boston-based Liberty Mutual Holding Company Inc., the parent corporation of the Liberty Mutual Group of entities ("LMG" or the "Company"), is a diversified global insurer and fifth largest property and casualty insurer in the U.S. based on 2009 direct written premium. The Company also ranks 71st on the Fortune 500 list of largest corporations in the United States based on 2009 revenue. As of December 31, 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.