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

Quarter Ended March 31, 2008

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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 months ended March 31, 2008 and 2007. This Management's Discussion & Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the Company's 2007 Annual Report, First Quarter 2008 Consolidated Financial Statements (unaudited) and First Quarter 2008 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 on an after-tax GAAP 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.

In particular, the sufficiency of the Company's reserves for (i) asbestos, (ii) environmental ((i) and (ii) together "A&E"), and (iii) toxic tort (i.e., claims that arise primarily from exposure to chemical or other hazardous substances, including welding rod and silica related claims), as well as its results of operations, financial condition and liquidity, to the extent impacted by the sufficiency of the Company's A&E and toxic tort reserves, are subject to a number of potential adverse developments including adverse developments involving A&E and toxic tort claims and the related level and outcome of litigation, the willingness of parties, including the Company, to settle disputes, the interpretation of aggregate policy coverage limits, the Company's ability to recover reinsurance for A&E, toxic tort and other claims, the legal, economic, regulatory, and legislative environments, and their impact on the future development of A&E and toxic tort claims, and the impact of bankruptcies of various asbestos producers and related peripheral businesses.

Some of the other factors that could cause actual results to differ include, but are not limited to, the following: the Company's inability to obtain price increases due to competition or otherwise; the performance of the Company's investment portfolios, which could be adversely impacted by unanticipated developments in U.S. and global financial markets, interest rates and rates of inflation; weakening U.S. and global economic conditions; insufficiency of, or changes in, loss reserves; the occurrence of catastrophic events, both natural and man-made, including terrorist acts, with a severity or frequency exceeding the Company's expectations; exposure to, and adverse developments involving, environmental claims and related litigation; the impact of claims related to exposure to potentially harmful products or substances, including, but not limited to, lead paint, silica and other potentially harmful substances; adverse changes in loss cost trends, including inflationary pressures in medical costs and automobile and home repair costs; developments relating to coverage and liability for mold claims; the effects of corporate bankruptcies on surety bond claims; adverse developments in the cost, availability and/or ability to collect reinsurance; the Company's ability to successfully integrate operations, personnel and technology from its acquisitions, including the recent acquisition of Ohio Casualty Corporation and its subsidiaries, and the proposed acquisition of Safeco Corporation and its subsidiaries, in accordance with its business strategy; the ability of the Company's subsidiaries to pay dividends to the Company; adverse results or other consequences from legal proceedings; the impact of regulatory investigations or reforms, including governmental actions regarding the compensation of brokers and agents and the purchase and sale of nontraditional products and related disclosures; unusual loss activity resulting from adverse weather conditions, including storms, hurricanes, hail, snowfall and winter conditions; repatriation of foreign earnings; judicial expansion of policy coverage and the impact of new theories of liability; the impact of legislative actions, including Federal and state legislation related to asbestos liability reform; larger than expected assessments for guaranty funds and mandatory pooling arrangements; a downgrade in the Company's claims-paying and financial strength ratings; the loss or significant restriction on the Company's ability to use credit scoring in the pricing and underwriting of Personal Lines policies; and amendments and changes to the risk-based capital requirements. 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 web site 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 March 31, 2008 - Consolidated Results of Operations

- Revenues for the three months ended March 31, 2008 were $6.885 billion, an increase of $742 million or 12.1% over the same period in 2007.
- Net written premium for the three months ended March 31, 2008 was $6.256 billion, an increase of $569 million or 10.0% over the same period in 2007.
- Pre-tax income for the three months ended March 31, 2008 was $480 million, a decrease of $20 million or 4.0% from the same period in 2007.
- Net income for the three months ended March 31, 2008 was $360 million, an increase of $10 million or 2.9% over the same period in 2007.
- Cash flow from operations for the three months ended March 31, 2008 was $613 million, a decrease of $396 million or 39.2% from the same period in 2007.
- The combined ratio before catastrophes[1] and net incurred losses attributable to prior years[2] for the three months ended March 31, 2008 was 99.1%, unchanged from the same period in 2007. Including the impact of catastrophes and net incurred losses attributable to prior years, the Company's combined ratio for the three months ended March 31, 2008 decreased 0.4 points to 100.7%.

Financial Condition as of March 31, 2008

- Total assets were $97.533 billion as of March 31, 2008, an increase of $2.791 billion over December 31, 2007.
- Policyholders' equity was $12.434 billion as of March 31, 2008, an increase of $68 million over December 31, 2007.
- Statutory surplus as regards policyholders for the combined operations of Liberty Mutual Insurance Company ("LMIC") and its U.S. affiliates was $14.099 billion as of March 31, 2008, a decrease of $56 million from December 31, 2007.

[1] Catastrophes include all current and prior year catastrophe losses related to the Company's insurance lines 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 and the 2005 U.S. hurricanes. In addition, losses related to the 2005 U.S. hurricanes and the 2004 U.S. hurricanes for assumed external reinsurance are reported net of the Company's reasonable assumption of expected catastrophe activity (defined as "net catastrophe reinsurance premium earned"). Internally reinsured catastrophe losses are not reported net of net catastrophe reinsurance premium earned. 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.

Other 2008 1st Quarter Highlights

- On January 9, 2008, the Company through its Brazilian subsidiary, Liberty International Brazil Ltda., acquired Indiana Seguros, S.A., a writer of primarily auto insurance in Brazil.

Subsequent Events

- On April 23, 2008, LMG and Safeco Corporation announced that they entered into a definitive agreement pursuant to which LMG, through its subsidiaries, will acquire all outstanding shares of common stock of Safeco for $68.25 per share or approximately $6.2 billion. The proposed transaction, which has been approved by the Boards of Directors of both companies, is subject to approval by Safeco's shareholders and customary regulatory approvals and conditions. The transaction is targeted to close in the third quarter of 2008.

CONSOLIDATED RESULTS OF OPERATIONS

The Company has identified consolidated pre-tax operating income ("PTOI") and net written premium 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 is considered by the Company to be appropriate indicator of underwriting and operating results and is consistent with the way the Company internally evaluates performance, except that limited partnership results recognized on the equity method are not included in internal PTOI. Net realized investment gains (losses) are significantly impacted by both discretionary and economic factors and are not necessarily indicative of operating results. Federal and foreign 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 reinsurance and ignoring the effects of 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. "Premium earned," which is the portion of premium that applies to the expired part of the policy period, is a GAAP measure. 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.

Overview – Consolidated

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

	Three Months Ended March 31,		
$ in Millions	**2008**	**2007**	**Change**
Private passenger automobile	$1,681	$1,446	16.3%
Workers compensation	1,433	1,485	(3.5)
Commercial multiple peril / Fire	471	399	18.0
Homeowners	451	395	14.2
International local businesses	429	354	21.2
General liability	342	256	33.6
Commercial automobile	330	288	14.6
LIU[1] reinsurance	327	343	(4.7)
LIU inland marine program	145	131	10.7
Group disability and life	137	116	18.1
LIU third party	100	125	(20.0)
Bond	88	66	33.3
LIU first party	63	71	(11.3)
Assumed voluntary reinsurance	55	31	77.4
Individual life	53	64	(17.2)
Other	151	117	29.1
Total net written premium[2]	$6,256	$5,687	10.0%

1 Liberty International Underwriters (LIU).
2 Net written premium associated with internal reinsurance has been re-allocated to the appropriate lines of business in the above table.

Consolidated net written premium by SBU was as follows:

	Three Months Ended March 31,		
$ in Millions	**2008**	**2007**	**Change**
Personal Markets[1]	$1,345	$1,319	2.0%
Commercial Markets	1,729	1,713	0.9
Agency Markets	1,577	1,221	29.2
International	1,577	1,423	10.8
Corporate and Other[2]	28	11	154.5
Total net written premium (NWP)	$6,256	$5,687	10.0%
Foreign exchange effect on growth			2.0
NWP growth excluding foreign exchange			8.0%

1 Effective January 1, 2008, individual life operation, previously included in Corporate and Other, is now included with the Personal Markets segment. All prior periods have been restated.

2 Includes internal reinsurance.

Net written premium for the three months ended March 31, 2008 was $6.256 billion, an increase of $569 million over the same period in 2007. Significant changes by major line of business include:

- Private passenger automobile net written premium increased $235 million over the same period in 2007. The increase primarily reflects organic growth in all of International's local businesses in Latin America and Asia Pacific, the January 2008 acquisition of Brazilian insurer Indiana Seguros, and the strengthening of foreign currencies versus the U.S. dollar. The increase also reflects strong customer retention and new business growth in both Personal Markets and Agency Markets, including premium related to the acquisition of Ohio Casualty Corporation ("Ohio Casualty"). These increases were partially offset by lower average premium per policy in Personal Markets due primarily to mandatory rate decreases in Massachusetts, which became effective in April of 2007.
- Workers compensation net written premium decreased $52 million from the same period in 2007. The decrease primarily reflects lower customer retention and rate decreases in both Agency Markets and Commercial Markets due to a more competitive environment, a decrease in Summit's premium due to mandated rate decreases in Florida and lower audit and retrospectively rated premium. Partially offsetting these decreases was premium related to the Ohio Casualty acquisition. The quarter also include an adjustment to the Corporate and Other segment for the "booked as billed" method of accounting for net written premium.
- Homeowners net written premium, including internal reinsurance premium, increased $56 million over the same period in 2007. The increase primarily reflects premium related to the Ohio Casualty acquisition, strong customer retention and new business growth, primarily in non-coastal areas, in both Personal Markets and Agency Markets. The increase also reflects the impact of rate increases from Personal Markets policies issued.
- Commercial multiple peril / fire, including internal reinsurance premium, increased $72 million over the same period in 2007. The increase reflects premium related to the Ohio Casualty acquisition, improved retention in Agency Markets and a reduction in the utilization of ceded reinsurance in Commercial Market's Liberty Mutual Property segment as compared to 2007. These increases were partially offset by rate decreases and lower retention in Commercial Markets due to a more competitive rate environment.
- International local businesses' net written premium (excluding private passenger automobile), including internal reinsurance premium, increased $75 million over the same period in 2007. The increase primarily reflects organic growth in International's local businesses in Latin America and the strengthening of foreign currencies versus the U.S. dollar.
- Commercial automobile net written premium increased $42 million over the same period in 2007. The increase primarily reflects premium related to the Ohio Casualty acquisition, improved

retention in Agency Markets, partially offset by modest rate decreases in both Commercial Markets and Agency Markets and lower retention in Commercial Markets.

- LIU reinsurance net written premium, including internal reinsurance premium, decreased $16 million from the same period in 2007. The decrease primarily reflects a decline in rates as a result of a more competitive market.
- General liability net written premium, increased $86 million over the same period in 2007. The increase reflects premium related to the Ohio Casualty acquisition, a $43 million multi-year account in Commercial Markets' National Market segment, strong retention and new business growth, partially offset by modest rate decreases due to a more competitive rate environment.
- LIU inland marine program net written premium increased $14 million over the same period in 2007. The increase is primarily due to International's continued expansion in this line of business.
- LIU third party net written premium, including internal reinsurance premium, decreased $25 million from the same period in 2007. The decrease is primarily due to a change in the structure of a reinsurance program and as a result of a more competitive rate environment.
- Group disability and life net written premium increased $21 million over the same period in 2007, due primarily to the impact of broader market penetration and improved retention.
- Bond net written premium increased $22 million over the same period in 2007, primarily due to the Ohio Casualty acquisition.
- LIU first party net written premium, including internal reinsurance premium, decreased $8 million from the same period in 2007. The change is primarily due to the recognition of additional ceded reinstatement premiums and a decline in rates as a result of more a competitive rate environment.
- Individual life net written premium decreased $11 million from the same period in 2007, primarily due to lower structured settlement and annuity sales.

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 March 31,		
$ in Millions	**2008**	**2007**	**Change**
Revenues	$6,885	$6,143	12.1%
PTOI before catastrophes and net incurred losses attributable to prior years	$583	$514	13.4%
Catastrophes[1]	(166)	(59)	181.4
Net incurred losses attributable to prior years:			
- Asbestos & environmental[2]	-	-	-
- All other[3]	75	(35)	NM
Pre-tax operating income	492	420	17.1
Realized investment (losses)/gains, net	(12)	80	NM
Federal and foreign income tax expense	(120)	(150)	(20.0)
Net income	$360	$350	2.9%
Cash flow from operations	$613	$1,009	(39.2%)

1 Catastrophes include all current and prior year catastrophe losses related to the Company's insurance lines 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 and the 2005 U.S. hurricanes. In addition, losses related to the 2005 U.S. hurricanes and the 2004 U.S. hurricanes for assumed external reinsurance are reported net of the Company's reasonable assumption of expected catastrophe activity (defined as "net catastrophe reinsurance premium earned"). Internally reinsured catastrophe losses are not reported net of net catastrophe reinsurance premium earned. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

2 Net of allowance for uncollectible reinsurance of zero for the months ended March 31, 2008, and $3 million for the comparable period of 2007.

3 Net of earned premium attributable to prior years of $3 million for the three months ended March 31, 2008, and $19 million for the comparable period of 2007. Net of amortization of deferred gains on retroactive reinsurance of $17 million for the three months ended March 31, 2008, and $16 million for the comparable period of 2007.

NM = Not Meaningful

Revenues for the three months ended March 31, 2008 were $6.885 billion, an increase of $742 million over the same period in 2007. 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 months ended March 31, 2008 was $5.938 billion, an increase of $727 million over the same period in 2007. The increase primarily reflects premium related to the Ohio Casualty acquisition and higher earned premium associated with the changes in net written premium in 2007 and the first quarter of 2008.

Net investment income for the three months ended March 31, 2008 was $757 million, an increase of $84 million over the same period in 2007. The increase primarily reflects an increase in taxable and tax-exempt interest income of $72 million due to a higher invested asset base. The increase in invested assets reflects the continued investment of operating cash flows and assets acquired.

Net realized investment gains (losses) for the three months ended March 31, 2008 were ($12) million, a decrease of $92 million from the same period in 2007. The decrease in the quarter primarily reflects higher impairment losses on fixed maturity and equity investments and significant foreign equity gains in 2007 that did not recur in 2008. Partially offsetting these losses was a $17 million net gain related to derivative contracts the Company used to partially hedge its equity exposure.

Fee and other revenues for the three months ended March 31, 2008 were $202 million, an increase of $23 million over the same period in 2007. The increase primarily reflects the reclassification of contractholder charges and assessments related to SFAS 97 business within Spain and Portugal from earned premium to fee and other revenue and an increase in the sale and production of oil and gas from the Company's energy operations. Partially offsetting the increase was the loss of revenue associated with the sale of a Company owned property in 2007 and lower fee revenues from the Company's servicing carrier operations due to lower involuntary market premium volume. As a servicing carrier, the Company receives fee income for performing certain underwriting, claims and administrative services for all participating involuntary pool members.

Claims, benefits and expenses for the three months ended March 31, 2008 were $6.405 billion, an increase of $762 million over the same period in 2007. The increase in the quarter was primarily due to the acquisitions of Ohio Casualty and Brazilian insurer Indiana Seguros, business growth across all strategic business units, in particular International's Latin America operations, general cost increases including interest expense and higher catastrophe and non-catastrophe property losses. The higher catastrophe losses primarily reflect tornados. Partially offsetting these increases was a decrease in incurred losses attributable to prior years and lower variable incentive compensation.

CONSOLIDATED	Three Months Ended March 31, 2008	2007	Change (Points)
Combined ratio before catastrophes and net incurred losses attributable to prior years			
Claims and claim adjustment expense ratio	71.2%	70.6%	0.6
Underwriting expense ratio	27.6	28.2	(0.6)
Dividend ratio	0.3	0.3	-
Subtotal	99.1	99.1	-
Catastrophes[1]	2.9	1.2	1.7
Net incurred losses attributable to prior years:			
- Asbestos & environmental	-	0.1	(0.1)
- All other	(1.3)	0.7	(2.0)
Total combined ratio[2]	100.7%	101.1%	(0.4)

1 Catastrophes include all current and prior year catastrophe losses related to the Company's insurance lines 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 and the 2005 U.S. hurricanes. In addition, losses related to the 2005 U.S. hurricanes and the 2004 U.S. hurricanes for assumed external reinsurance are reported net of the Company's reasonable assumption of expected catastrophe activity (defined as "net catastrophe reinsurance premium earned"). Internally reinsured catastrophe losses are not reported net of net catastrophe reinsurance premium earned. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

2 The combined claim and expense 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 claim and expense ratio is computed as the sum of the following property and casualty ratios: the ratio of claims and claim adjustment expense to earned premium; the ratio to earned premium of insurance operating costs plus amortization of deferred policy acquisition costs less fee income (primarily related to the Company's involuntary market servicing carrier operations and managed care income) and less installment charges; and the ratio of policyholder dividends to earned premium. Provisions for uncollectible premium and reinsurance are not included in the combined ratio unless related to an asbestos and environmental commutation.

The consolidated combined ratio before catastrophes and net incurred losses attributable to prior years for the three months ended March 31, 2008 was 99.1%, unchanged from the same period in 2007. The increase in the claims and claim adjustment expense ratio reflects an increase in non-catastrophe property related losses in both Agency Markets and Commercial Markets, increased loss activity within LIU's first party business, unfavorable current accident year loss experience on automobile business written in Turkey and the impact of a more competitive rate environment. Partially offsetting these increases was a lower claims and claim adjustment in Personal Markets, as the loss ratio in the first quarter of 2007 was recorded at a level reflective of the uncertainty associated with the continuation of favorable auto liability loss trends and lower premium rates during that period. However, in the fourth quarter of 2007 the current accident year loss ratio was re-estimated to reflect current market trends. In 2008, Personal Markets recorded an accident year loss ratio for auto liability at a level consistent with the accident year loss ratio it booked for the twelve months ending December 31, 2007. The decrease in the underwriting expense ratio primarily reflects lower variable incentive compensation and other corporate expenses, partially offset by the one-time integration costs related to the Ohio Casualty acquisition, a decrease in the amount of expense reimbursement received from the Company's servicing carrier operations due to the depopulation of the pools, higher acquisition costs in Latin America and a change in the structure of a reinsurance program in LIU's third party business which reduced the amount of ceded commissions received versus 2007.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three months ended March 31, 2008 was 100.7%, a decrease of 0.4 points from the same period in 2007. The decrease primarily reflects the impact of favorable net incurred loss development attributable to prior years. Partially offsetting the increase was the change in the combined ratio components discussed previously and higher catastrophe losses due primarily to the tornados in Georgia and Tennessee.

PTOI for the three months ended March 31, 2008 was $492 million, an increase of $72 million over the same period in 2007.

Federal and foreign income tax expense for the three months ended March 31, 2008 was $120 million, a decrease of $30 million from the same period in 2007. The Company's effective tax rate for the three months ended March 31, 2008 was 25%, compared to 30% for the same period in 2007. The Company's effective tax rate differs from the Federal statutory rate of 35% principally due to tax-preferenced investment income, revisions to prior year estimates and international operations.

Net income for the three months ended March 31, 2008 was $360 million, an increase of $10 million over the same period in 2007.

Cash flow from operations for the three months ended March 31, 2008 was $613 million, a decrease of $396 million or 39.2% from the prior year. The decrease reflects higher loss payments related to catastrophe losses and large property losses and also higher auto physical damage losses resulting from a more severe northeast winter. Additionally, the timing of reinsurance, loss recoveries and acquisition costs contributed to the decline.

PERSONAL MARKETS

Overview – Personal Markets

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

	Three Months Ended March 31,		
$ in Millions	**2008**	**2007**	**Change**
Private passenger automobile	$906	$900	0.7%
Homeowners and other	386	355	8.7
Individual life	53	64	(17.2)
Total net written premium	$1,345	$1,319	2.0%

1 Effective January 1, 2008, individual life operation, previously included in Corporate and Other, is now included with the Personal Markets segment. All prior periods have been restated.

Net written premium for the three months ended March 31, 2008 was $1.345 billion, an increase of $26 million over the same period in 2007. The increase reflects new business growth, strong customer retention in both automobile and homeowners, and rate increases on homeowners policies, partially offset by decreased sales within Individual Life.

Private passenger automobile net written premium for the three months ended March 31, 2008 was $906 million, an increase of $6 million from the same period in 2007. The increase reflects a 3.2% increase in voluntary policies in force as compared to March 31, 2007 due to strong customer retention and new business growth, offset by lower average premium per policy. The lower average premium per policy was primarily driven by the mandatory rate decrease in Massachusetts, which became effective in April of 2007.

Homeowners and other net written premium for the three months ended March 31, 2008 was $386 million, an increase of $31 million over the same period in 2007. The increase reflects rate increases and a 3.7% increase in policies in force as compared to December 31, 2007 due to strong customer retention and new business growth, primarily in non-coastal areas.

Individual life net written premium for the three months ended March 31, 2008 was $53 million, a decrease of $11 million from the same period in 2007. The decrease reflects lower immediate annuity and structured settlement sales due to lower crediting rates.

__Results of Operations – Personal Markets__

	Three Months Ended March 31,		
$ in Millions	**2008**	**2007**	**Change**
Revenues	$1,634	$1,578	3.5%
PTOI before catastrophes and net incurred losses attributable to prior years	$204	$164	24.4
Catastrophes[2]	(64)	(36)	77.8
Net incurred losses attributable to prior years:			
- Asbestos & environmental	-	-	-
- All other	2	40	N/M
Pre-tax operating income	$142	$168	(15.5%)

1 Effective January 1, 2008, individual life operation, previously included in Corporate and Other, is now included with the Personal Markets segment. All prior periods have been restated.

2 Catastrophes include all current and prior year catastrophe losses related to the Company's insurance lines 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 and the 2005 U.S. hurricanes. Internally reinsured cat losses are not reported net of net catastrophe reinsurance premium earned.

NM = Not Meaningful

Revenues for the three months ended March 31, 2008 were $1.634 billion, an increase of $56 million over the same period in 2007. The major components of revenues are net premium earned and net investment income.

Net premium earned for the three months ended March 31, 2008 was $1.430 billion, an increase of $50 million over the same period in 2007. The increase reflects the earned premium associated with the changes in net written premium for both the voluntary automobile and homeowners lines of business in 2007 and the first quarter 2008.

Net investment income for the three months ended March 31, 2008 was $174 million, an increase of $6 million over the same period in 2007. The increase primarily reflects a higher invested asset base due to the continued investment of cash flow from operations.

Claims, benefits and expenses for the three months ended March 31, 2008 were $1.494 billion, an increase of $86 million over the same period in 2007. The increase in the quarter reflects business growth, a decrease in the amount of prior year loss development on auto liability business, higher catastrophe losses driven by March tornados, mainly in Georgia, and an increase in acquisition expenses mainly due to higher advertising costs as compared to the same period in 2007.

	Three Months Ended March 31,		
PERSONAL MARKETS	2008	2007	Change (Points)
Combined ratio before catastrophes and net incurred losses attributable to prior years			
Claims and claim adjustment expense ratio	65.5%	68.5%	(3.0)
Underwriting expense ratio	25.7	25.5	0.2
Dividend ratio	-	-	-
Subtotal	91.2	94.0	(2.8)
Catastrophes[1]	4.7	2.7	2.0
Net incurred losses attributable to prior years:			
- Asbestos & environmental	-	-	-
- All other	(0.2)	(3.0)	2.8
Total combined ratio	95.7%	93.7%	2.0

1 Catastrophes include all current and prior year catastrophe losses related to the Company's insurance lines 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 and the 2005 U.S. hurricanes. Internally reinsured cat losses are not reported net of net catastrophe reinsurance premium earned.

The Personal Markets combined ratio before catastrophes and net incurred losses attributable to prior years for the three months ended March 31, 2008 was 91.2%, a decrease of 2.8 points from the same period in 2007. The decrease was driven by a lower claims and claim adjustment ratio as the loss ratio in the first quarter of 2007 was recorded at a level reflective of the uncertainty associated with the continuation of favorable auto liability loss trends and lower premium rates during that period. However, in the fourth quarter of 2007 the current accident year loss ratio was re-estimated to reflect current market trends. In 2008, Personal Markets recorded an accident year loss ratio for auto liability at a level consistent with the accident year loss ratio it booked for the twelve months ending December 31, 2007. The higher underwriting expense ratio was primarily due to an increase in advertising costs.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three months ended March 31, 2008 was 95.7%, an increase of 2.0 points over the same period in 2007. The increase reflects the changes in the combined ratio previously discussed, higher catastrophe losses related to wind and hail storms and a decrease in the amount of favorable net incurred loss development attributable to prior years as compared to the same period in 2007.

PTOI for the three months ended March 31, 2008 was $142 million, a decrease of $26 million from the same period in 2007.

COMMERCIAL MARKETS

Overview – Commercial Markets

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

	Three Months Ended March 31,		
$ in Millions	**2008**	**2007**	**Change**
Business Market	$482	$548	(12.0%)
Wausau Insurance	439	415	5.8
National Market	376	363	3.6
Specialty Lines	73	74	(1.4)
Group Market	137	116	18.1
Liberty Mutual Property	89	80	11.3
Other Markets	133	117	13.7
Total net written premium	$1,729	$1,713	0.9%

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

	Three Months Ended March 31,		
$ in Millions	**2008**	**2007**	**Change**
Workers compensation	$1,022	$1,096	(6.8%)
General liability	236	190	24.2
Group disability and life	137	116	18.1
Commercial automobile	124	138	(10.1)
Commercial multiple peril / Fire	119	95	25.3
Assumed voluntary reinsurance	39	30	30.0
Other	52	48	8.3
Total net written premium	$1,729	$1,713	0.9%

Net written premium for the three months ended March 31, 2008 was $1.729 billion, an increase of $16 million over the same period in 2007. The increase primarily reflects an increase in general liability premium due to a $43 million multi-year National Market account written in 2008, higher commercial multiple peril/fire premium due to a reduction in the utilization of ceded reinsurance as compared to 2007 and an increase in group disability and assumed voluntary reinsurance business due to a broader penetration of those markets. These increases were partially offset by lower customer retention levels and rate decreases across all lines of business due to a more competitive rate environment. In addition the decrease reflects lower audit and retrospective premium recorded primarily in Business Market's workers compensation.

Results of Operations – Commercial Markets

	Three Months Ended March 31,		
$ in Millions	**2008**	**2007**	**Change**
Revenues	$1,702	$1,636	4.0%
PTOI before catastrophes and net incurred losses attributable to prior years	$113	$116	(2.6%)
Catastrophes[1]	(15)	(5)	200.0
Net incurred losses attributable to prior years:			
- Asbestos & environmental	-	-	-
- All other[2]	10	(6)	NM
Pre-tax operating income	$108	$105	2.9%

1 Catastrophes include all current and prior year catastrophe losses related to the Company's insurance lines and exclude losses related to assumed voluntary reinsurance except for losses related to the events of September 11, 2001, the 2004 hurricanes and the 2005 hurricanes. In addition, losses related to the 2005 hurricanes and the 2004 hurricanes for assumed external reinsurance are reported net of the Company's reasonable assumption of expected catastrophe activity (defined as "net catastrophe reinsurance premium earned"). Catastrophe losses include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

2 Net of earned premium attributable to prior years of $8 million for the three months ended March 31, 2008, and $14 million for the comparable period of 2007. Net of amortization of deferred gains on retroactive reinsurance of $12 million for the three months ended March 31, 2008, and $11 million for the comparable period of 2007.

Revenue for the three months ended March 31, 2008 was $1.702 billion, an increase of $66 million in the quarter as compared to 2007. The major components of revenues are net premium earned, net investment income, and fee and other revenues.

Net premium earned for the three months ended March 31, 2008 was $1.419 million, an increase of $57 million in the quarter compared to 2007. The increase reflects the earned premium associated with the changes in net written premium in 2007 and the first quarter of 2008.

Net investment income for the three months ended March 31, 2008 was $203 million, an increase of $16 million over the same period in 2007. The increase primarily reflects a higher invested asset base due to the continued investment of cash flow from operations.

Fee and other revenues for the three months ended March 31, 2008 was $80 million, a decrease of $7 million from the same period in 2007. The decrease primarily reflects lower fee revenues from the Company's servicing carrier operations due to lower involuntary market premium volume. As a servicing carrier, the Company receives fee income for performing certain underwriting, claims and administrative services for all participating involuntary pool members.

Claims, benefits and expenses for the three months ended March 31, 2008 were $1.594 billion, an increase of $63 million in the quarter as compared to 2007. The increase primarily reflects business growth, general cost increases and higher non-catastrophe and catastrophe related property losses. The higher catastrophe losses primarily reflect the March tornados in Georgia. Partially offsetting these increases was a decrease in the amount of incurred losses attributable to prior years, primarily in the workers compensation line of business.

COMMERCIAL MARKETS	Three Months Ended March 31, 2008	2007	Change (Points)
Combined ratio before catastrophes and net incurred losses attributable to prior years			
Claims and claim adjustment expense ratio	83.2%	82.2%	1.0
Underwriting expense ratio	21.5	20.7	0.8
Dividend ratio	0.6	0.4	0.2
Subtotal	105.3	103.3	2.0
Catastrophes[1]	1.1	0.4	0.7
Net incurred losses attributable to prior years:			
- Asbestos & environmental	-	-	-
- All other	(0.7)	0.4	(1.1)
Total combined ratio	105.7%	104.1%	1.6

1 Catastrophes include all current and prior year catastrophe losses related to the Company's insurance lines and exclude losses related to assumed voluntary reinsurance except for losses related to the events of September 11, 2001, the 2004 U.S. hurricanes and the 2005 U.S. hurricanes. In addition, losses related to the 2005 U.S. hurricanes and the 2004 U.S. hurricanes for assumed external reinsurance are reported net of the Company's reasonable assumption of expected catastrophe activity (defined as "net catastrophe reinsurance premium earned"). Internally reinsured catastrophe losses are not reported net of net catastrophe reinsurance premium earned. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

The Commercial Markets combined ratio before catastrophes and net incurred losses attributable to prior years for the three months ended March 31, 2008 was 105.3%, an increase of 2.0 points over the comparable period in 2007. The increase in the claims and claim adjustment expense ratio primarily reflects the impact of large property losses and a more competitive rate environment. The increase in the underwriting expense ratio is driven by a decrease in the amount of expense reimbursement received from the Company's servicing carrier operations due to the depopulation of the involuntary pools.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three months ended March 31, 2008 was 105.7%, an increase of 1.6 points over the same period in 2007. The increase reflects the change in the combined ratio previously discussed and higher catastrophe losses primarily attributable to the March tornados in Georgia.

PTOI for the three months ended March 31, 2008 was $108 million, an increase of $3 million over the same period in 2007.

AGENCY MARKETS

Overview – Agency Markets

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

	Three Months Ended March 31,		
$ in Millions	**2008**	**2007**	**Change**
Regional Companies Commercial Lines	$877	$683	28.4%
Regional Companies Personal Lines	308	168	83.3
Summit	253	280	(9.6)
Bond	89	66	34.8
Other[1,2]	50	24	108.3
Total net written premium	$1,577	$1,221	29.2%

1 Effective in the first quarter 2008, net written premium associated with the run-off operations of GoAmerica, previously included in Regional Companies Personal Lines, is included in Other. The prior period has been restated to reflect this change.
2 Tables exclude the results of Ohio Casualty prior to August 24, 2007.

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

	Three Months Ended March 31,		
$ in Millions	**2008**	**2007**	**Change**
Commercial Lines			
Workers compensation total:	$477	$468	1.9%
- Summit	253	280	(9.6)
- All other	224	188	19.1
Commercial multiple peril	347	273	27.1
Commercial automobile	205	148	38.5
General liability	91	45	102.2
Bond	88	66	33.3
Other	55	46	19.6
Subtotal	$1,263	$1,046	20.7%
Personal Lines			
Private passenger automobile	$197	$107	84.1%
Homeowners	97	59	64.4
Other	20	9	122.2
Subtotal	$314	$175	79.4%
Total net written premium	$1,577	$1,221	29.2%

Net written premiums for the three months ended March 31, 2008 were $1.577 billion, an increase of $356 million over the same period in 2007. The increase was primarily due to the Ohio Casualty acquisition and Regional Companies personal lines growth driven by strong retention and new business. These increases were partially offset by modest rate decreases in most states and lines of business due to a more competitive market environment, mandated workers compensation rate decreases in Florida and a decrease in audit and retrospectively rated premium at Summit.

Results of Operations – Agency Markets

	Three Months Ended March 31,		
$ in Millions	**2008**	**2007**	**Change**
Revenues	$1,647	$1,235	33.4%
PTOI before catastrophes and net incurred losses attributable to prior years	$108	$105	2.9
Catastrophes[1]	(80)	(18)	NM
Net incurred losses attributable to prior years:			
- Asbestos & environmental	-	-	-
- All other[2]	66	18	NM
Pre-tax operating income	$94	$105	(10.5%)

1 Catastrophes include all current and prior year catastrophe losses related to the Company's insurance lines 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 and the 2005 U.S. hurricanes. Internally reinsured catastrophe losses are not reported net of net catastrophe reinsurance premium earned. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

2 Net of earned premium attributable to prior years of ($4) million for the three months ended March 31, 2008, respectively, and $4 million for the comparable period of 2007.

NM = Not Meaningful

Revenues for the three months ended March 31, 2008 were $1.647 billion, an increase of $412 million over the same period in 2007. The major components of revenues are net premium earned and net investment income.

Net premium earned for the three months ended March 31, 2008 were $1.493 billion, an increase of $367 million over the same period in 2007. The increase reflects the earned premium related to the Ohio Casualty acquisition and premium associated with the changes in net written premium in 2007and the first quarter 2008.

Net investment income for the three months ended March 31, 2008 was $139 million, an increase of $46 million over the same period in 2007. The increase reflects an increase in invested assets due to the continued investment of cash flow from operations and assets assumed from the Ohio Casualty acquisition.

Claims, benefits and expenses for the three months ended March 31, 2008 were $1.553 billion, an increase of $423 million over the same period in 2007. The increase primarily reflects claims, benefits and expenses associated with the Ohio Casualty acquisition, higher catastrophe losses driven by February tornados, mainly in Tennessee, an increase in non-catastrophe weather related property losses in the Midwest and general cost increases.

	Three Months Ended March 31,		
AGENCY MARKETS	**2008**	**2007[3]**	**Change (Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years			
Claims and claim adjustment expense ratio	68.7%	66.4%	2.3
Underwriting expense ratio	32.2	31.6	0.6
Dividend ratio	0.8	0.9	(0.1)
Subtotal	101.7	98.9	2.8
Catastrophes[1]	5.3	1.6	3.7
Net incurred losses attributable to prior years:			
- Asbestos & environmental	-	-	-
- All other	(4.4)	(1.6)	(2.8)
Total combined ratio	102.6%	98.9%	3.7

1 Catastrophes include all current and prior year catastrophe losses related to the Company's insurance lines 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 and the 2005 U.S. hurricanes. In addition, losses related to the 2005 U.S. hurricanes and the 2004 U.S. hurricanes for assumed external reinsurance are reported net of the Company's reasonable assumption of expected catastrophe activity (defined as "net catastrophe reinsurance premium earned"). Internally reinsured catastrophe losses are not reported net of net catastrophe reinsurance premium earned. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

The Agency Markets combined ratio before catastrophes and net incurred losses attributable to prior years for the three months ended March 31, 2008 was 101.7%, an increase of 2.8 points over the same period in 2007. The increase reflects a higher claims and claim adjustment expense ratio due to a higher frequency of non-catastrophe related property losses and related claims expenses and the impact of a more competitive rate environment. The increase in the underwriting expense ratio reflects one-time integration costs associated with the Ohio Casualty acquisition including systems integration costs, and the impact of rate decreases on premium, partially offset by a decrease in premium taxes.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three months ended March 31, 2008 was 102.6%, an increase of 3.7 points over the same period in 2007. The increase reflects the changes in the combined ratio previously discussed and higher catastrophe losses due to the February tornados, mainly in Tennessee, and a reduction in audit and retrospectively rated premium attributable to prior years. These increases were partially offset by an increase in the impact of favorable prior year loss development.

PTOI for the three months ended March 31, 2008 was $94 million, a decrease of $11 million from the same period in 2007.

INTERNATIONAL

Overview – International

International net written premium by market segment was as follows:

	Three Months Ended March 31,		
$ in Millions	**2008**	**2007**	**Change**
International Local Businesses Total	$988	$792	24.7%
- Latin America	587	402	46.0
- Europe	344	347	(0.9)
- Asia Pacific	57	43	32.6
Liberty International Underwriters	589	631	(6.7)
Total net written premium (NWP)	$1,577	$1,423	10.8%
Foreign exchange effect on growth			8.0%
NWP growth excluding foreign exchange			2.8%

The Company's International operations provide insurance products and services through 1) Local Businesses, selling personal and commercial lines products locally and 2) Liberty International Underwriters ("LIU") which sells specialty commercial lines insurance and reinsurance products worldwide.

International's six major lines of business 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: cell phone replacement coverage for lost or damaged devices;
(4) LIU third party: includes casualty, excess casualty, D&O, E&O, professional liability and other;
(5) LIU first party: includes marine, energy, engineering, construction, aviation, and property; and
(6) LIU other: includes workers compensation, commercial automobile, and residual value.

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

	Three Months Ended March 31,		
$ in Millions	**2008**	**2007**	**Change**
Local businesses – private passenger automobile	$578	$439	31.7%
Local businesses – all other[1]	410	353	16.1
LIU reinsurance	285	291	(2.1)
LIU inland marine program	145	131	10.7
LIU third party	90	125	(28.0)
LIU first party	58	71	(18.3)
LIU other	11	13	(15.4)
Total net written premium	$1,577	$1,423	10.8%

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

Net written premium for the three months ended March 31, 2008 was $1.577 billion, an increase of $154 million over the same period in 2007. The increase primarily reflects organic growth in all local businesses in Latin America and Asia Pacific, the acquisition of Brazilian insurer Indiana Seguros, start-up operations in Poland and the strengthening of foreign currencies versus the U.S. dollar. Growth in the period also reflects the continued expansion of LIU's inland marine program business. Partially offsetting these increases was an increase in ceded written premium in LIU's third party business due to a change in the structure of a reinsurance program, higher ceded reinstatement premiums in LIU's first party business and a more competitive rate environment.

Results of Operations – International

	Three Months Ended March 31,		
$ in Millions	**2008**	**2007**	**Change**
Revenues	$1,731	$1,433	20.8%
PTOI before catastrophes and net incurred losses attributable to prior years	$125	$135	(7.4%)
Catastrophes[1]	-	-	-
Net incurred losses attributable to prior years:			
- Asbestos & environmental	-	-	-
- All other[2]	6	9	(33.3)
Pre-tax operating income	$131	$144	(9.0%)

1 Catastrophes include all current and prior year catastrophe losses related to the Company's insurance lines and exclude losses related to external reinsurance assumed through Lloyd's Syndicate 4472 except for losses related to the events of September 11, 2001, the 2004 U.S. hurricanes and the 2005 U.S. hurricanes. Internally reinsured catastrophe losses are not reported net of net catastrophe reinsurance premium earned, the Company's reasonable assumption of expected catastrophe activity. Catastrophe losses, where applicable, include the impact of reinstatement premiums.

2 Net of earned premium attributable to prior years of ($1) million and $1 million for the three months ended March 31, 2008 and 2007, respectively.

Revenues for the three months ended March 31, 2008 were $1.731 billion, an increase of $298 million over the same period in 2007. The major components of revenues are net premium earned and net investment income.

Net premium earned for the three months ended March 31, 2008 was $1.539 billion, an increase of $256 million over the same period in 2007. The increase primarily reflects the impact of business growth consistent with the increase in net written premium from the local businesses and LIU's inland marine program.

Net investment income for the three months ended March 31, 2008 was $152 million, an increase of $29 million over the same period in 2007. The increase reflects a higher invested asset base, higher yields in many of the local businesses, primarily in Latin America and Europe, and the impact of foreign exchange.

Claims, benefits and expenses for the three months ended March 31, 2008 were $1.603 billion, an increase of $326 million over the same period in 2007. The increase primarily reflects business growth in the local businesses, primarily in Latin America, including the acquisition of Indiana Seguros in Brazil. The increase also reflects the overall strengthening of foreign currencies versus the U.S. dollar, the continued expansion of LIU's inland marine program business and higher net commission expense. The increase in net commission expense primarily reflects higher acquisition costs in the local businesses, primarily Latin America, and a change in the structure of a reinsurance program in LIU's third party business, partially offset by an increase in ceding commissions in LIU's inland marine program due to a change in the terms of the program.

	Three Months Ended March 31,		
INTERNATIONAL	**2008**	**2007**	**Change (Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years			
Claims and claim adjustment expense ratio	69.2%	67.6%	1.6
Underwriting expense ratio	31.1	30.9	0.2
Dividend ratio	-	-	-
Subtotal	100.3	98.5	1.8
Catastrophes[1]	-	-	-
Net incurred losses attributable to prior years:			
- Asbestos & environmental	-	-	-
- All other	(0.4)	(0.7)	0.3
Total combined ratio	99.9%	97.8%	2.1

1 Catastrophes include all current and prior year catastrophe losses related to the Company's insurance lines and exclude losses related to external reinsurance assumed through Lloyd's Syndicate 4472 except for losses related to the events of September 11, 2001, the 2004 U.S. hurricanes and the 2005 U.S. hurricanes. Internally reinsured catastrophe losses are not reported net of net catastrophe reinsurance premium earned, the Company's reasonable assumption of expected catastrophe activity. Catastrophe losses, where applicable, include the impact of reinstatement premiums.

The consolidated combined ratio before catastrophes and net incurred losses attributable to prior years for the three months ended March 31, 2008 was 100.3%, an increase of 1.8 points over the comparable period in 2007. The increase in the claims and claim adjustment expense ratio reflects a more competitive rate environment and increased loss activity within LIU's first party business. Unfavorable current accident year loss experience on automobile business written in Turkey also contributed to the increase. The increase in the combined ratio also reflects a higher underwriting expense ratio due to higher acquisition costs in Latin America and a change in the structure of a reinsurance program in LIU's third party business which reduced the amount of ceded commissions received versus 2007.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three months ended March 31, 2008 was 99.9%, an increase of 2.1 points over the same period in 2007. The increase reflects the aforementioned changes in the combined ratio components, as well as a slight decrease in the amount of favorable incurred loss development attributable to prior years.

PTOI for the three months ended March 31, 2008 was $131 million, a decrease of $13 million from the same period in 2007.

CORPORATE and OTHER

Overview – Corporate and Other

Corporate and Other includes the following significant items:

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

- Interest expense on the Company's outstanding domestic debt.

- Internal reinsurance programs, primarily catastrophe treaties where the SBUs choose to purchase more reinsurance coverage than the Company purchases for the consolidated group and, effective in 2007, loss development associated with Commercial Markets pre-2005 fully insured workers compensation business.

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

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

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

- Income (loss) related to limited partnership and limited liability company investments.

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

- Effective January 1, 2008, individual life operation, previously included in Corporate and Other, is now included with the Personal Markets segment. All prior periods have been restated.

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

	Three Months Ended March 31,		
$ in Millions	**2008**	**2007**	**Change**
Internal reinsurance	$106	$97	9.3%
Workers compensation[1]	(79)	(87)	9.2
Other	1	1	-
Total net written premium	$28	$11	154.5%

1 Booked as billed adjustment.

Net written premium for the three months ended March 31, 2008 was $28 million, an increase of $17 million over the same period in 2007. The increase in the quarter primarily reflects an increase in internal reinsurance premium and the impact of the Company's workers compensation "booked as billed" adjustment.

Results of Operations – Corporate and Other

	Three Months Ended March 31,		
$ in Millions	**2008**	**2007**	**Change**
Revenues	$171	$261	(34.5%)
PTOI before catastrophes and net incurred losses attributable to prior years	$33	$(6)	NM
Catastrophes[1]	(7)	-	NM
Net incurred losses attributable to prior years:			
- Asbestos & environmental[2]	-	-	-
- All other[3]	(9)	(96)	(90.6)
Pre-tax operating income (loss)	$17	$(102)	NM

1 Catastrophes include all current and prior year catastrophe losses related to the Company's insurance lines 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.

2 Net of allowance for uncollectible reinsurance reduction of zero and $3 million for the three months ended March 31, 2008 and 2007, respectively.

3 Net of amortization of deferred gains on retroactive reinsurance of $5 million for the three months ended March 31, 2008 and 2007.

NM = Not Meaningful

Revenues for the three months ended March 31, 2008 were $171 million, a decrease of $90 million over the same period in 2007. The major components of revenues include net premium earned, net investment income, net realized investment gains and losses, and fee and other revenues.

Net premium earned for the three months ended March 31, 2008 was $57 million, a decrease of $3 million over the same period in 2007.

Net investment income for the three months ended March 31, 2008 was $89 million, a decrease of $13 million from the same period in 2007. The decrease reflects a decrease in investment income related to limited partnerships and limited liability companies and an increase in the amount of net investment income allocated to the SBUs.

Net realized investment gains (losses) for the three months ended March 31, 2008 were ($7) million, a decrease of $73 million from the same period in 2007. The loss in the quarter primarily reflects higher impairment losses on fixed maturity and equity investments and significant foreign equity gains in 2007 which did not recur in 2008.

Fee and other revenues for the three months ended March 31, 2008 were $32 million, a decrease of $1 million from the same period in 2007. The decrease reflects the loss of revenue associated with the sale of a Company owned property in 2007, partially offset by an increase in oil and gas revenues.

Claims, benefits and expenses for the three months ended March 31, 2008 were $161 million, a decrease of $136 million from the same period in 2007. The decrease reflects a decrease in the amount of unfavorable incurred losses attributable to prior years primarily related to pre-2005 fully insured workers compensation business and assumed voluntary reinsurance business. In addition, variable incentive compensation and other corporate expenses decreased in the quarter, partially offset by an increase in losses related to internal reinsurance programs and higher interest expense as a result of the Company's March 2007 debt offering.

Pre-tax operating income for the three months ended March 31, 2008 was $17 million, an increase of $119 million over the same period in 2007.

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

The following table summarizes the Company's invested assets by asset category as of March 31, 2008 and December 31, 2007:

$ in Millions	**As of March 31, 2008**		**As of December 31, 2007**	
Invested Assets by Type	**Carrying Value**	**% of Total**	**Carrying Value**	**% of Total**
Fixed maturities, available for sale, at fair value	$47,215	86.9%	$46,934	86.9%
Equity securities, available for sale, at fair value	2,916	5.4	3,285	6.1
Trading securities, at fair value	17	-	16	-
Limited partnerships and limited liability companies	2,303	4.2	2,134	4.0
Commercial mortgage loans	775	1.4	657	1.2
Short-term investments	883	1.6	764	1.4
Other investments	266	0.5	214	0.4
Total invested assets	$54,375	100.0%	$54,004	100.0%

Total invested assets as of March 31, 2008 were $54.375 billion, an increase of $371 million or 0.7% over December 31, 2007. The increase reflects the investment of cash flows from operations and continued growth in investment income, partially offset by an increase in unrealized losses due to an increase in credit spreads and a general decline in market values related to the municipal bond and equity markets.

Fixed maturities as of March 31, 2008 were $47.215 billion, an increase of $281 million or 0.6% over December 31, 2007. The increase reflects the investment of cash flows from operations, partially offset by market value declines in tax exempt and high yield securities.

Equity securities, available for sale, as of March 31, 2008 were $2.916 billion ($2.377 billion common stock and $539 million preferred stock), a decrease of $369 million or 11.2% from December 31, 2007. This decrease primarily reflects a reduction in unrealized gains due in part to a general decline in equity market indices.

Limited partnerships and limited liability companies as of March 31, 2008 were $2.303 billion, an increase of $169 million or 7.9% over December 31, 2007. These investments consist of traditional private equity partnerships of $1.467 billion, real estate partnerships of $425 million, and other partnerships (primarily energy) of $411 million. The increase over December 31, 2007 was driven by new investments across all three categories as the Company continues to diversify its private equity portfolio. 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 March 31, 2008 were $775 million, an increase of $118 million or 18.0% over December 31, 2007. The increase reflects $123 million of new capital loaned, net of $5 million in principal repayments. The entire commercial loan portfolio is domestic. The average loan size is $0.5 million and the loan loss reserve is $0.5 million or 0.07% of the outstanding loan portfolio. The number of loans in the portfolio increased from 1,406 at December 31, 2007 to 1,608 at March 31, 2008.

Short term investments as of March 31, 2008 were $883 million, an increase of $119 million or 15.6% over December 31, 2007. This increase reflects assets assumed from the acquisition of Indiana Seguros S.A., a Brazilian insurer, which the Company completed on January 9, 2008.

In January 2008, the Company adopted SFAS 157, which establishes a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value. As of March 31, 2008, the Company reflected $4.700 billion as level 1 (quoted prices in active markets) and this primarily was comprised of US 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 March 31, 2008, the Company reported $45.614 billion as level 2, consisting primarily of various fixed maturity securities. Finally, the Company reported $1.664 billion as level 3 (unobservable inputs) and this primarily was comprised of international and privately held securities for which a market price is not readily available and commercial mortgage loans which are carried at amortized cost.

As of March 31, 2008, the Company had unfunded commitments in traditional private equity partnerships, energy and other, real estate, and commercial mortgage loans of $878 million, $463 million, $392 million and $340 million, respectively. As of March 31, 2008, the Company had commitments to purchase various residential mortgage-backed securities at a cost and fair market value of $24 million and $25 million, respectively.

As of March 31, 2008, no single issuer, excluding U.S. Treasuries, agency securities and mortgage-backed securities, accounted for more than 1.0% of invested assets.

The following table summarizes the Company's fixed maturity portfolio by security type as of March 31, 2008 and December 31, 2007:

$ in Millions	**As of March 31, 2008**		**As of December 31, 2007**	
Fixed Maturities by Security Type	**Market Value**	**% of Total**	**Market Value**	**% of Total**
U.S. Government and agency securities	$3,352	7.1%	$3,318	7.1%
Mortgage and asset-backed securities	13,325	28.2	13,491	28.7
U.S. state and municipal	10,011	21.2	10,001	21.3
Corporate and other	17,727	37.6	17,438	37.2
Foreign government securities	2,800	5.9	2,686	5.7
Total fixed maturities	$47,215	100.0%	$46,934	100.0%

During the first quarter of 2008, the Company did not make any significant changes to its tactical allocation of fixed maturity securities.

The following table summarizes the Company's exposure to alt-A and sub-prime mortgage collateral as of March 31, 2008:

$ in Millions	**As of March 31, 2008**		
	Alt-A	**Sub-prime**	**Total**
Liberty Mutual Group (excluding Ohio Casualty)	$140	$13	$153
Ohio Casualty	40	74	114
Consolidated	$180	$87	$267

The following table summarizes the Company's exposure to alt-A and sub-prime mortgage collateral as of December 31, 2007:

$ in Millions	**As of December 31, 2007**		
	Alt-A	**Sub-prime**	**Total**
Liberty Mutual Group (excluding Ohio Casualty)	$161	$16	$177
Ohio Casualty	44	80	124
Consolidated	$205	$96	$301

As of March 31, 2008, the Company's exposure to sub-prime ($87 million or 0.16% of invested assets) and alt-A mortgage collateral ($180 million or 0.33% of invested assets) was primarily AAA rated.

The following table summarizes the Company's allocation of fixed maturities by credit quality as of March 31, 2008 and December 31, 2007:

$ in Millions	**As of March 31, 2008**		**As of December 31, 2007**	
Fixed Maturities by Credit Quality*	**Market Value**	**% of Total**	**Market Value**	**% of Total**
AAA	$23,958	50.8%	$24,576	52.4%
AA+, AA, AA-	7,807	16.5	7,586	16.2
A+, A, A-	7,762	16.4	7,196	15.3
BBB+, BBB, BBB-	4,748	10.1	4,405	9.4
BB+, BB, BB-	1,704	3.6	1,797	3.8
B+, B, B-	1,049	2.2	1,165	2.5
CCC or lower	187	0.4	209	0.4
Total fixed maturities	$47,215	100.0%	$ 46,934	100.0%

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

The Company's allocation to investment grade securities increased slightly to 93.8% at March 31, 2008 from 93.3% December 31, 2007. The improvement was driven primarily by the sale of non-investment grade securities.

The Company had 6.2% of its fixed maturity securities invested in non-investment grade securities at March 31, 2008. The Company's holdings of below investment grade securities primarily consist of: (1) an actively managed diversified portfolio of high yield securities and loans within the domestic insurance portfolios; and (2) investments in emerging market sovereign 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 March 31, 2008 and December 31, 2007:

$ in Millions	As of March 31, 2008		As of December 31, 2007	
Fixed Maturities by Maturity Date	**Market Value**	**% of Total**	**Market Value**	**% of Total**
1 yr or less	$1,586	3.4%	$1,376	3.0%
Over 1 yr through 5 yrs	9,487	20.1	9,295	19.8
Over 5 yrs through 10 yrs	9,900	21.0	9,567	20.4
Over 10 years	12,917	27.3	13,205	28.1
Mortgage and asset-backed securities	13,325	28.2	13,491	28.7
Total fixed maturities	$47,215	100.0%	$46,934	100.0%

During 2008, after taking into consideration changes in investment opportunities and its view of the current and prospective business and economic environment, the Company made only minor adjustments to the average life of its investment portfolio.

Net Investment Income

The following table summarizes the Company's net investment income for the three months ended March 31, 2008 and 2007:

$ in Millions	Three Months Ended March 31,	
Net Investment Income	**2008**	**2007**
Taxable interest income	$584	$546
Tax-exempt interest income	106	72
Dividends	24	17
Limited partnerships and limited liability companies	60	65
Commercial mortgage loans	10	5
Other investment income	2	1
Gross investment income	786	706
Investment expenses	(29)	(33)
Net investment income	$757	$673

Net investment income for the three months ended March 31, 2008 was $757 million, an increase of $84 million over the same period in 2007. The increase primarily reflects an increase in taxable and tax-exempt interest income of $72 million due to a higher invested asset base. The increase in invested assets reflects the continued investment of operating cash flows and assets acquired.

Net Realized Investment Gains (Losses)

The following tables summarize the Company's net realized investment gains (losses) for the three months ended March 31, 2008 and 2007:

$ in Millions **Net Realized Investment Gains (Losses)**	Sales & Dispositions	Impairments	Change in Derivatives Value	Total
Three Months Ended March 31, 2008:				
Fixed maturities	($4)	($15)	$ -	($19)
Common and preferred stock	5	(16)	-	(11)
Other	27	-	(9)	18
Total	$28	($31)	($9)	($12)
Three Months Ended March 31, 2007:				
Fixed maturities	$15	$ -	$ -	$15
Common and preferred stock	59	(2)	-	57
Other	13	(5)	-	8
Total	$87	$ (7)	$ -	$80

$ in Millions	Three Months Ended March 31,	
Components of Net Realized Investment Gains (Losses)	**2008**	**2007**
Fixed maturities:		
Gross realized gains	$32	$32
Gross realized losses	(51)	(17)
Equities:		
Gross realized gains	16	61
Gross realized losses	(27)	(4)
Other:		
Gross realized gains	27	14
Gross realized losses	(9)	(6)
Total net realized investment gains (losses)	($12)	$80

Net realized investment gains (losses) for the three months ended March 31, 2008 were ($12) million, a decrease of $92 million from the same period in 2007. The decrease in the quarter primarily reflects higher impairment losses on fixed maturity and equity investments and significant foreign equity gains in 2007 that did not recur in 2008. Partially offsetting these losses was a $17 million net gain related to derivative contracts the Company used to partially hedge its equity exposure.

Equities and Hedging Program

Beginning in January 2008, the Company, as part of its risk management and diversification strategy, entered into several futures contracts related to the equities market. The contracts were terminated in March, 2008 and the Company realized gains of $26 million on these transactions. Subsequent to the futures program, the Company has entered into an equity swap agreement. For the period ended March 31, 2008 the Company incurred a $9 million change in value related to the swap agreement. This contract expires in January, 2009 with earlier termination allowed.

The following table shows a schedule of the Company's unrealized losses and fair value by security type by duration of potential impairment as of March 31, 2008:

$ in Millions	**Less Than 12 Months**		**Greater Than 12 Months**	
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	$ -	$ 5	($10)	$ 17
Mortgage and asset-backed securities	(96)	2,454	(79)	1,526
U.S. state and municipal	(182)	4,812	(54)	614
Corporate and other	(280)	5,615	(345)	3,761
Foreign government securities	(41)	688	(7)	212
Equities	(336)	1,162	(19)	33
Total	($935)	$14,736	($514)	$6,163

Unrealized losses increased from $934 million as of December 31, 2007 to $1.449 billion as of March 31, 2008 primarily due to an increase in credit spreads and a general decline in market values related to the municipal bond and equity markets. Unrealized losses less than 12 months increased from $510 million to $935 million and accounted for $425 million, or 82.5%, of the overall increase in unrealized losses. The Company monitors the difference between the amortized cost and estimated fair value of investments to ascertain whether declines in value are temporary in nature. The Company employs a systematic methodology utilizing a quantitative and qualitative process ensuring that available evidence concerning the declines in fair value below amortized cost is evaluated in a disciplined manner.

If the Company believes a decline in the value of a particular investment is temporary, the decline is recorded as an unrealized loss in shareholders' equity. 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. As a result of this review, the Company has concluded that the gross unrealized losses of fixed maturity securities as of March 31, 2008 are temporary.

The gross unrealized losses recorded on equity securities at March 31, 2008 resulted primarily from decreases in quoted market values from the dates that certain investment securities were acquired as opposed to fundamental changes in the issuer's financial performance and near-term financial prospects. Therefore, these decreases are also viewed as temporary in accordance with the Company's policy with respect to recognizing impairments in the investment portfolio.

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. The Company invests its net cash flows in fixed income securities and equities while keeping a certain amount in cash and short-term investments to meet unpredictable cash obligations. For ongoing business, 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 March 31, 2008 totaled $54.375 billion.

Short-term debt outstanding at March 31, 2008 and December 31, 2007 was as follows:

$ in Millions	**As of March 31, 2008**	**As of December 31, 2007**
Commercial paper	$-	$-
Revolving credit facilities	9	70
Current maturities of long-term debt	20	21
Total short-term debt	$29	$91

Long-term debt outstanding at March 31, 2008 and December 31, 2007 was as follows:

$ in Millions	**As of March 31, 2008**	**As of December 31, 2007**
8.00% Prudential notes—series B due 2013	$260	$260
7.86% Medium term notes, due 2013	25	25
5.75% Senior notes, due 2014	500	500
7.30% Senior notes, due 2014[1]	200	200
6.70% Senior notes, due 2016	250	250
7.00% Junior subordinated notes due 2067[2]	300	300
8.50% Surplus notes, due 2025	150	150
7.875% Surplus notes, due 2026	250	250
7.63% Notes, due 2028	3	3
7.00% Senior notes, due 2034	250	250
6.50% Senior notes, due 2035	500	500
7.50% Senior notes, due 2036	500	500
7.80% Junior subordinated notes due 2087[3]	700	700
7.697% Surplus notes, due 2097	500	500
Subtotal	4,388	4,388
Unamortized discount[4]	(28)	(28)
Total long-term debt excluding current maturities	$4,360	$4,360

[1] Reflects debt issued by Ohio Casualty.
[2] The par value call date and final fixed rate interest payment date is March 15, 2017, subject to certain requirements.
[3] The par value call date and final fixed rate interest payment date is March 15, 2037, subject to certain requirements.
[4] Reflects purchase accounting adjustment related to Ohio Casualty $200 million senior notes, due 2014.

The Company issues commercial paper through Liberty Mutual Group Inc. ("LMGI"). On June 25, 2007, LMGI increased its commercial paper program, guaranteed by LMIC, from $600 million to $1 billion. The program is backed by a $750 million five-year revolving credit facility. To date, no funds have been borrowed under the facility.

On April 5, 2007, LMGI entered into a $250 million 3-year unsecured revolving credit facility for general corporate purposes. To date, no funds have been borrowed under the facility.

Liberty Corporate Capital Limited entered into a $100 million 364 day revolving credit facility, which became effective October 26, 2007. The facility is available to provide working capital to the Company's Lloyd's Syndicate business. The 364 day credit facility is guaranteed by LMIC. As of March 31, 2008, no borrowings were outstanding under the facility.

Liberty Mutual Insurance Europe Limited ("LMIE") entered into a $20 million revolving loan facility, which became effective June 9, 2006. The facility is available to provide working capital to the Company's international operations. The revolving loan facility is guaranteed by LMIC. As of March 31, 2008, $9 million was outstanding under the facility.

The Company's Venezuelan subsidiary, Inversora Segucar, C.A., maintains a $90 million revolving credit facility to provide liquidity for working capital purposes. As of March 31, 2008, no borrowings were outstanding under the facility.

The $62 million decrease in short-term debt outstanding is due to a decrease of $70 million in outstanding borrowings under the Venezuelan credit facility and $1 million partial repayment of the 5.0% Prudential notes due 2008. This decrease was partially offset by an increase of $9 million in outstanding borrowings under the LMIE credit facility.

Consolidated interest expense for the three months ended March 31, 2008 was $83 million, representing an increase of $17 million over the same period in 2007.

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 March 31, 2008, the Company, through its downstream subsidiary LMGI, had $3.290 billion of debt outstanding, excluding discount.

The insurance subsidiaries' ability to pay dividends is restricted under applicable insurance laws and regulations. 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 to policyholders, following such dividend, is reasonable in relation to its outstanding liabilities and adequate to its financial needs. 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 authorization control level risk-based capital (as of December 31, 2007) and 2008 dividend capacity prior to needing regulatory approval for LMIC, LMFIC and EICOW were as follows:

$ in Millions	**RBC Ratio [1]**			**Dividend Capacity[2]**
RBC Ratios and Dividend Capacity	**2007**	**2006**	**Change**	**2008**
LMIC [3]	519%	554%	(35 points)	$1,182
LMFIC	507%	579%	(72 points)	$87
EICOW [3]	516%	395%	121 points	$130

[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, 2007, the EICOW pooling percentage decreased from 16.0% to 10.0% and LMIC's pooling percentage increased accordingly.

LMGI also has access to funds at Liberty Corporate Services LLC ("Corporate Services"). Through its subsidiaries, Corporate Services collects fees and other revenues, primarily for claims administration and agency services rendered for affiliated and non-affiliated entities. For the three months ended March 31, 2008, Corporate Services recorded $66 million in pre-tax income.

Statutory Surplus

Statutory surplus as regards policyholders for the combined operations of LMIC and its U.S. affiliates including international branches was $14.099 billion and $14.155 billion at March 31, 2008, and December 31, 2007, respectively. The decrease in surplus reflects unaffiliated unrealized losses of $329 million, partially offset by affiliated unrealized gains of $53 million, net income of $114 million (the sum of earnings from the Company's 49 domestic insurance companies and dividends from subsidiaries) and a decrease in non-admitted goodwill of $119 million.

CRITICAL ACCOUNTING POLICIES

Critical Accounting Estimates

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

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

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

Certain reclassifications have been made to the 2007 tables to conform to the 2008 tables.

Adoption of New Accounting Standards

Effective January 1, 2008, the Company had the option to adopt Statement of Financial Accounting Standards No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of SFAS 115*" ("SFAS 159"). The Company has not made any fair value elections as allowed under SFAS 159.

Effective January 1, 2008, the Company adopted Emerging Issues Task Force ("EITF") issue No. 06-4, "*Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*" ("EITF 06-4"). This issue provides guidance on the recognition and measurement of assets related to collateral assignment split-dollar life insurance arrangements. The adoption of EITF 06-4 resulted in a decrease to equity of $41 million.

Effective January 1, 2008, the Company adopted EITF issue No. 06-10, "*Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements* ("EITF 06-10"). This issue requires a company to recognize a liability for future life insurance benefits in accordance with SFAS 106 or Opinion 12. The adoption of EITF 06-10 had no impact on the Company's financial statements.

Effective December 31, 2007, the Company adopted Statement of Financial Accounting Standards No. 158, "*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an Amendment of FASB Statements No. 87, 88, 106 and 132(R)*" ("SFAS 158"). This statement requires the Company to (a) recognize the funded status of its pension, supplemental pension and postretirement benefit plans on the consolidated balance sheet as an asset or liability, measured as the difference between plan assets at fair value and the benefit obligation as of the employer's fiscal year end, with a corresponding adjustment to accumulated other comprehensive income ("AOCI"), net of tax; and to (b) recognize as a component of AOCI, net of tax, actuarial gains or losses or prior service cost or credit that arise during the period but are not recognized as a component of net periodic benefit cost. Consistent with the provisions of SFAS 158, these amounts will be subsequently recognized in the income statement pursuant to the Company's historical accounting policy for amortizing such amounts with a corresponding offset to AOCI. The provisions of Statement of Financial Accounting Standards No. 87, *"Employers' Accounting for Pensions"* and Statement of Financial Accounting Standards No. 106, *"Employers' Accounting for Postretirement Benefits Other than Pensions"* ("SFAS 106") continue to apply in measuring plan assets and benefit obligations, as of the date of fiscal year-end statement of financial position, and in determining net periodic benefit cost. The provisions of SFAS 158 are not to be applied retrospectively. The adoption of SFAS 158 as of December 31, 2007 decreased other assets by $245 million, increased other liabilities by $198 million, increased deferred tax assets by $155 million, and decreased AOCI, a component of policyholders' equity by $288 million, net of tax. Adoption of SFAS 158 did not affect the Company's results of operation or liquidity as SFAS 158 does not affect the determination of net periodic benefit costs.

Future Adoption of New Accounting Standards

In March 2008, FASB issued SFAS No. 161, "*Disclosures about Derivative Instruments and Hedging Activities"* ("SFAS 161"). SFAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008.

In December 2007, the FASB issued SFAS No. 160, "*Accounting for Noncontrolling Interests*" ("SFAS 160"). SFAS 160 will result in the consolidation of all non-controlling interests within the income statement and balance sheet of the Company for all consolidated subsidiaries. SFAS 160 is required to be adopted on January 1, 2009. Prospective adoption is required, except for the required reclassifications which are to be applied retrospectively. Early adoption is not permitted. The Company is in the process of evaluating the impact of adoption.

In December 2007, the FASB issued SFAS No. 141(R), "*Applying the Acquisition Method*" ("SFAS 141(R)"). This issue will result in significant changes to accounting for business combinations. Prospective adoption is required and early adoption is not permitted. The Company is required to adopt SFAS 141(R) effective January 1, 2009.

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.

Unpaid Claims and Claim Adjustment Expenses

Reserves for property-casualty unpaid claims and claim adjustment expenses were $43.514 billion and $42.992 billion at March 31, 2008 and December 31, 2007, respectively. The increase was primarily due to business growth less the on-going settlement of claims.

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

Establishing loss reserves, including loss reserves for catastrophic events that have occurred, is an estimation process. Many factors can ultimately affect the final settlement of a claim and, therefore, the necessary reserve. Changes in the law, results of litigated cases, medical costs, and cost of repair materials and labor rates can all affect ultimate claim costs. In addition, the span of time between the incidence of a loss and the payment or settlement of the claim can be a critical part of reserving determinations and will cause more variability in the ultimate claim cost. 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 A&E reserves for unpaid claims and claim adjustment expenses were $1.238 billion and $1.334 billion at March 31, 2008 and December 31, 2007, respectively, net of reinsurance and including an allowance for doubtful accounts. The year-to-date decrease was due primarily to ongoing settlement activity of asbestos and environmental claims.

In the third quarter of 2007, the Company completed its biennial ground-up asbestos reserve study and increased its asbestos reserves by $95 million. 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. In addition, an internationally known actuarial consulting firm performed its own independent review of the Company’s asbestos reserves and confirmed the reasonableness of the reserve increase.

As part of the internal review, potential exposures of large policyholders were individually evaluated using the company's proprietary stochastic model, which is consistent with the latest published actuarial paper on asbestos reserving. Among the factors reviewed in depth by the team 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. Small policyholders were evaluated using aggregate methods that utilized information developed from the large policyholders. Additionally, a provision of pure IBNR was established for the potential emergence of first-time filers of future asbestos claims.

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’s 2003 acquisition of PruPac included $190 million and $130 million of gross and net A&E reserves, respectively. Any increase in A&E reserves related to PruPac is reinsured by Vantage Casualty Insurance Company and guaranteed by Prudential Financial Inc. The Company had paid losses associated with these reserves of $36 million for the three months ended March 31, 2008 and $57 million for the year ended December 31, 2007.

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

Reinsurance Recoverables

The Company reported reinsurance recoverables of $15.387 billion and $15.518 billion at March 31, 2008 and December 31, 2007, respectively, net of allowance for doubtful accounts. The decrease is primarily due to the ongoing settlement of 2005 hurricane claims.

The reinsurance recoverables from Nationwide Indemnity Co. have been fully guaranteed by its parent, Nationwide Mutual Insurance Co., 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 ("RCC") 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 RCC is directly responsible for establishing the rating, collateral, and diversification requirements governing the Company's purchase and use of reinsurance.

Approximately 96% 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 March 31, 2008. Collateral held against outstanding gross reinsurance recoverable balances was $5.448 billion and $5.259 billion at March 31, 2008 and December 31, 2007, respectively.

The remaining 4% 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 March 31, 2008.

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. At March 31, 2008, and December 31, 2007, deferred gains related to these reinsurance arrangements were $774 million and $786 million, respectively, and are included in other liabilities within the consolidated balance sheets. Interest credited to the funds held balances was $29 million and $28 million for the three months ended March 31, 2008, and 2007, respectively. Deferred gain amortization was $16 million for the three months ended March 31, 2008, and 2007. Reinsurance recoverables related to these transactions, including experience related profit accruals, were $2.207 billion and $2.222 billion as of March 31, 2008, and December 31, 2007, 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, premium and loss activity subsequent to December 31, 2001 is now accounted for as retroactive reinsurance for coverage provided from the fourth quarter 2000 through the fourth quarter 2001 covered accident year periods.

In 2006, LMIC entered into multi-year property catastrophe reinsurance agreements with Mystic Re Ltd. ("Mystic Re"), a Cayman Islands domiciled reinsurer, to provide $525 million of additional reinsurance coverage for LMIC and its affiliates in the event of a Northeast hurricane. The reinsurance agreements are collateralized through a trust and guarantee received by Mystic Re from the issuance of catastrophe bonds and provide coverage for hurricane-related losses from Washington, D.C. to Maine based on industry insured losses as reported by Property Claim Services. In 2007, LMIC supplemented this reinsurance in a similar transaction with Mystic Re II Ltd. ("Mystic Re II"), a Cayman Islands domiciled reinsurer, to provide $150 million of additional reinsurance coverage for LMIC and its affiliates in the event of a Northeast and/or Florida hurricane event. The Company has not recorded any recoveries under these programs. Neither Mystic Re nor Mystic Re II has any other reinsurance in force.

Impairment Losses on Investments

The total impairment losses on investments for the three months ended March 31, 2008 were $31 million, an increase of $24 million compared to the same period in 2007. Impairments in 2008 were related primarily to high yield and foreign equity securities. Unrealized losses that are other-than-temporary are recognized as realized losses. The Company's accounting policy for other-than-temporary impairment recognition requires other-than-temporary impairment charges to be recorded when it is determined that the Company is unlikely to recover its cost basis in an investment in the near-term. Factors considered in evaluating whether a decline in value is other-than-temporary include: (a) the length of time and extent to which the fair value has been below cost; (b) the financial condition and near-term prospects of the issuer; and (c) the intent and ability of the Company to retain the investment for a period of time sufficient to allow for any anticipated recovery. In addition, for securities expected to be sold, an other-than-temporary impairment charge is recognized if the Company does not expect the fair value of a security to recover to cost or amortized cost prior to the expected date of sale.

The Company employs a systematic methodology to evaluate declines in fair value below the book value for equity securities and other investments. The methodology utilizes a quantitative and qualitative process ensuring that available evidence concerning the declines in fair value below carrying value is evaluated in a disciplined manner. Based on that evaluation and the Company's ability and intent to hold these investments for a reasonable period of time sufficient for a recovery of fair value, the Company views the decline in market value of these investments as being temporary in accordance with the Company's impairment policy. However, the Company reserves the flexibility to trade any investment as deemed appropriate based on changes in credit or other market factors in managing the invested assets positions of the Company.

Variable Interest Entities

In January 2003, the FASB issued Interpretation No. 46, *"Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51"* ("FIN 46"). The Company's exposure to investment structures subject to analysis under FIN 46(R), relate primarily to investments in energy, private equity, and real estate limited partnerships that are accounted for under the equity method. The Company has been deemed to be the primary beneficiary for 2 VIEs in the energy investment sector, therefore it consolidates these 2 VIEs in its financial statements. In addition, the Company has investments in 43 and 40 VIEs for which it is not the primary beneficiary at March 31, 2008 and December 31, 2007, respectively. The Company's investments in VIEs were $525 million and $386 million at March 31, 2008 and December 31, 2007, respectively. The Company's maximum exposure to losses from VIEs was $931 million and $786 million as of March 31, 2008 and December 31, 2007, respectively, and there is no recourse provision to the general credit of the Company 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 insurance subsidiary that has entered into derivative transactions. Pursuant to the policy, the Company may enter into derivative transactions. As of March 31, 2008 and December 31, 2007, the Company had two interest rate swaps acquired with the assets and liabilities of the Genesis life insurance business. As of both March 31, 2008 and December 31, 2007, the value of these instruments was approximately ($5) million. The Company also had owned warrants, however they were sold in 2007.

Beginning in January 2008, the Company, as part of its risk management program and diversification strategy, entered into several futures contracts related to the equities market with notional amounts totaling $599 million. All futures contracts concluded in March 2008 and the Company realized gains of $26 million on these transactions. Subsequent to the above transactions, the Company has entered into a $600 million notional equity swap agreement. For the period ending March 31, 2008 the Company incurred a $9 million loss related to the change in value of the swap contract. This contract expires in January, 2009, however, earlier termination is allowed.

Deferred Acquisition Costs and Acquired In-force Policy Intangibles

Total deferred policy acquisition costs and acquired in-force policy intangibles were $2.181 billion and $2.045 billion as of March 31, 2008 and December 31, 2007, 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. Acquired in-force policy intangibles are costs associated with the acquisition of Ohio Casualty that equal the fair value of in-force insurance contracts at the date of acquisition.

Goodwill and Intangibles

Goodwill and intangible assets were $2.387 billion and $2.292 billion at March 31, 2008 and December 31, 2007, respectively. The increase was primarily due to the acquisition of Indiana Seguros, S.A..

Deferred Income Taxes

The net deferred income tax asset was $1.677 billion and $1.469 billion as of March 31, 2008 and December 31, 2007, respectively, net of a valuation allowance of $126 million and $117 million, respectively. 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 unrealized capital gains and losses on certain investments, insurance loss reserves, unearned premiums, deferred policy acquisition costs, employee benefits, net operating losses, and alternative minimum tax credits.

The IRS is currently reviewing the Company’s federal tax returns for the 1999 through 2005 tax years. Any adjustments that may result from the IRS examination of these income tax returns are not expected to have a material impact on the financial position, liquidity or results of operations of the Company.

About the Company

Boston-based Liberty Mutual Holding Company Inc., the parent corporation of the Liberty Mutual Group of entities ("LMG" or the "Company"), is a diversified global insurer and sixth largest property and casualty insurer in the U.S. based on 2006 direct written premium. The Company also ranks 94th on the Fortune 500 list of largest corporations in the United States based on 2007 revenue. As of December 31, 2007, LMG had $94.742 billion in consolidated assets, $82.376 billion in consolidated liabilities, and $25.961 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 its business through four SBUs: Personal Markets, Commercial Markets, Agency Markets and International. Each business unit operates independently of the others and has dedicated sales, underwriting, claims, actuarial, financial and certain information technology resources. Management believes this structure allows each business unit to execute its business strategy and/or to make acquisitions without impacting or disrupting the operations of the Company's other business units.

LMG employs over 41,000 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.