



Liberty
Mutual®

**JP Morgan 2005
Insurance Conference**

March 31, 2005

Forward Looking Statements and Basis of Presentation

This presentation may include “forward-looking statements” that are intended to enhance the reader’s ability to assess Liberty Mutual Group’s (“LMG” or the “Company”) future financial and business performance. Forward-looking statements include, but are not limited to, statements that represent LMG’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 LMG’s control or are subject to change, actual results could be materially different. Some of the factors that could cause actual results to differ include, but are not limited to, the following: the willingness of parties, including the Company, to settle disputes; the interpretation of aggregate policy coverage limits; LMG’s inability to obtain price increases due to competition or otherwise; the performance of LMG’s investment portfolios, which could be adversely impacted by adverse 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 (including terrorist acts and adverse weather conditions) with a severity or frequency exceeding the Company’s expectations; 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; adverse outcomes or other consequences from legal proceedings; the impact of regulatory investigations or reforms; judicial expansion of policy coverage and the impact of new theories of liability; the impact of legislative actions; larger than expected assessments for guaranty funds and assigned risk/involuntary pools; and amendments and changes to the risk-based capital requirements. LMG’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. LMG does not intend, and does not undertake, any obligation to update any forward-looking statements to reflect future events or circumstances after the date hereof. For a more complete discussion of the risks faced by LMG, visit our website at www.libertymutual.com/investors.

Liberty Mutual Group Overview

Liberty Mutual Overview

- 8th largest personal lines writer in the U.S.
- 5th largest commercial lines writer in the U.S.
- Diversified business mix
- \$72.4 B of assets, \$8.7 B of equity
- Personal auto largest line of business
- Conversion to Mutual Holding Co. in 2002



Strategic Business Units

Personal Markets

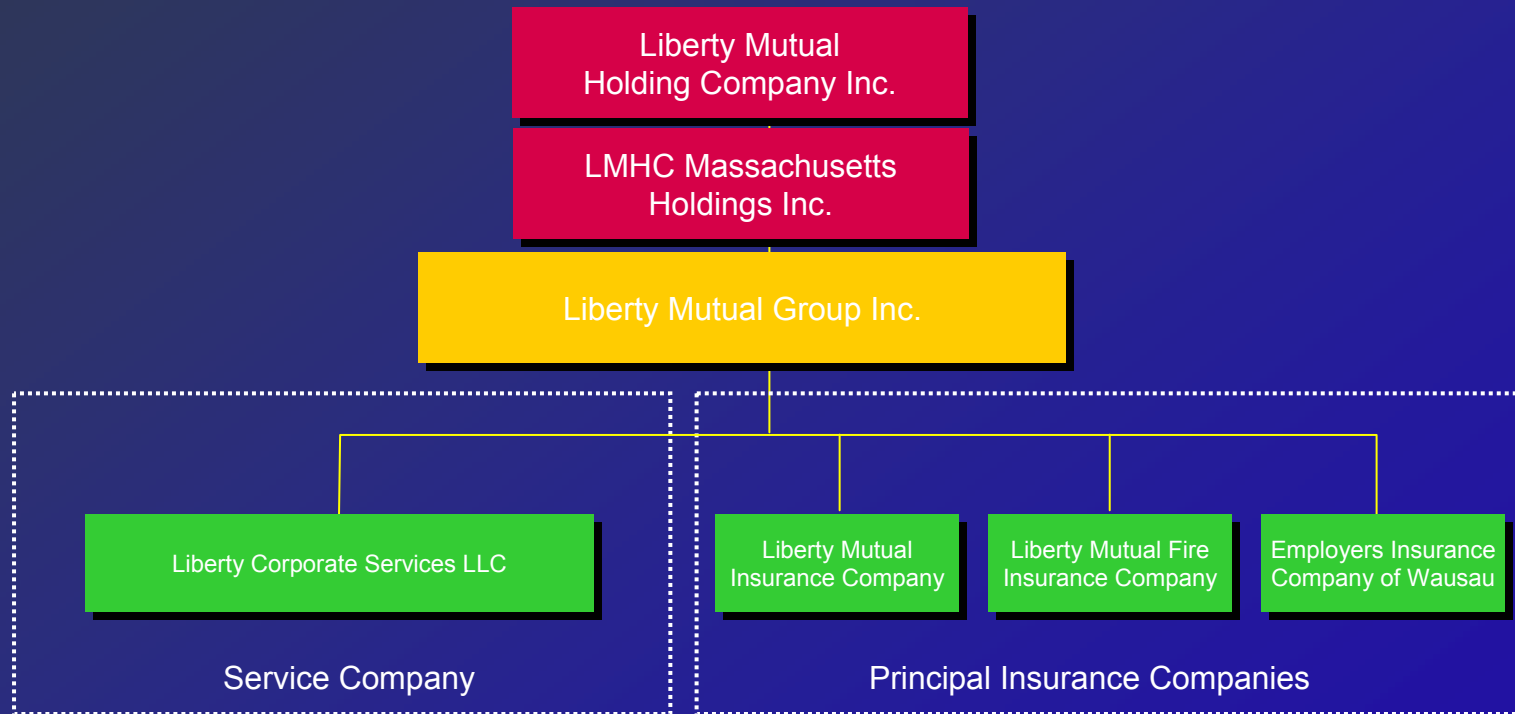
Commercial Markets

Regional Agency
Markets (RAM)

International

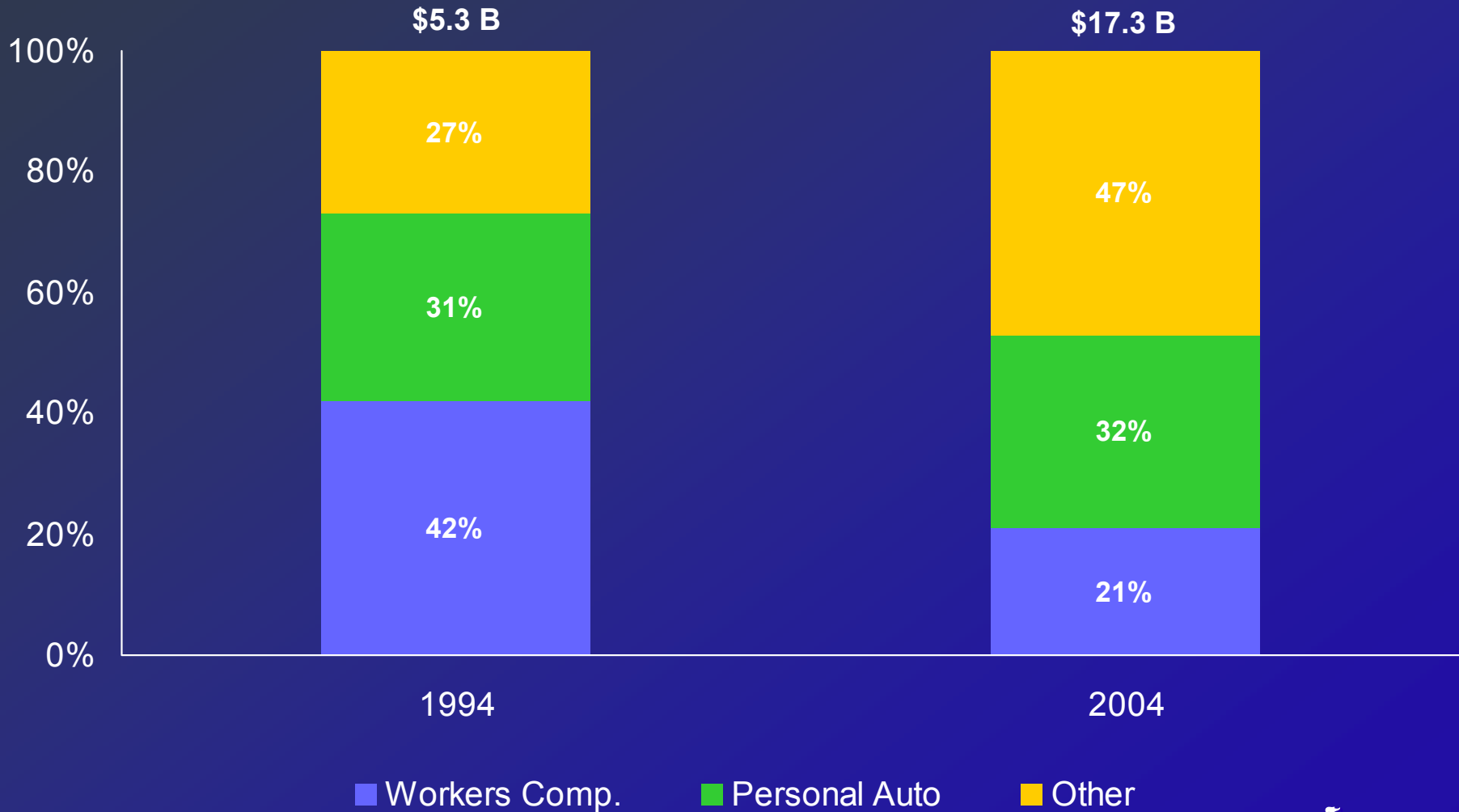
Mutual Holding Company Structure

- ◆ Converted to mutual holding company structure in 2002 to increase financial flexibility
- ◆ Service company structure added in 2003



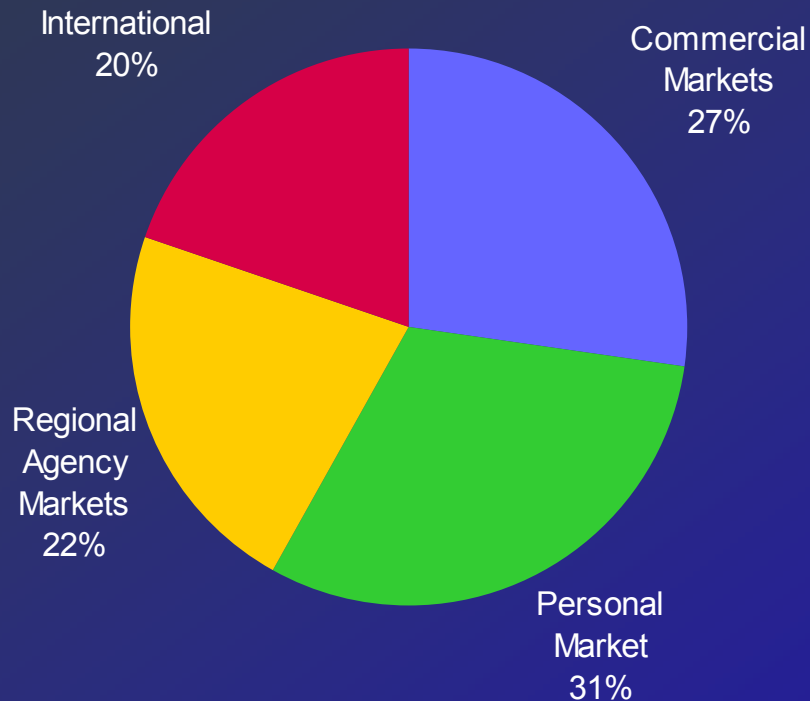
Shifting Business Mix – Net Written Premiums

% NWP

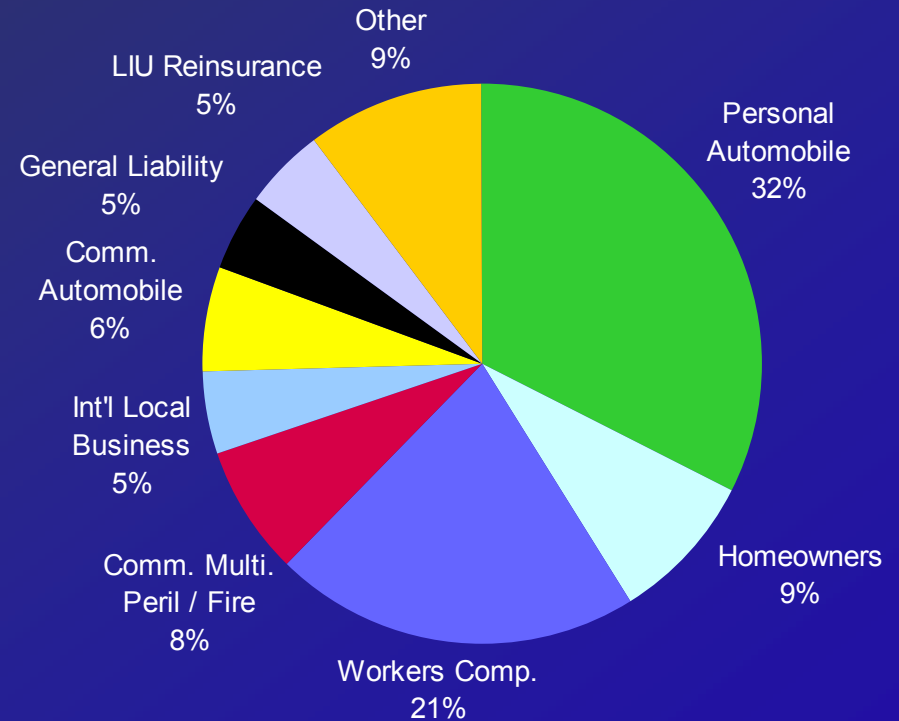


Diversified Business Mix

Strategic Business Units



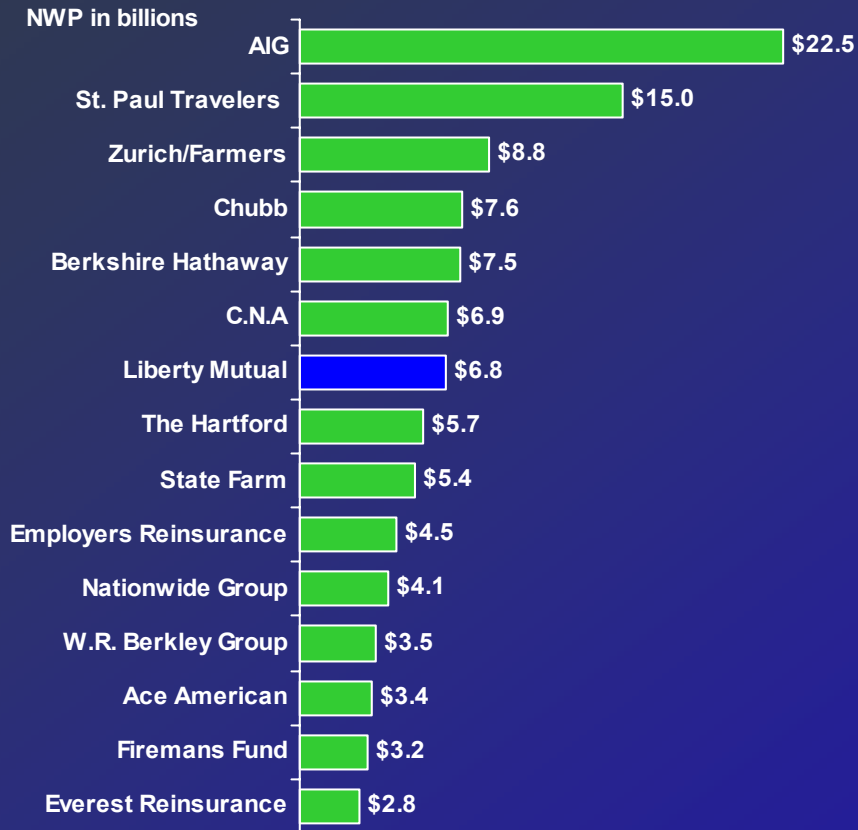
Significant Lines of Business



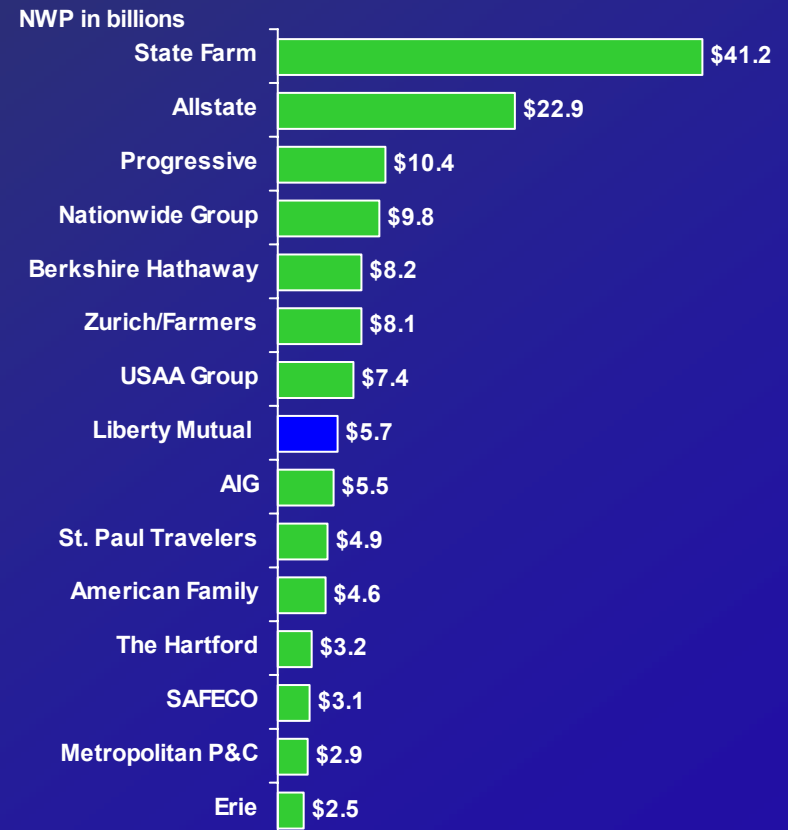
2004 Net Written Premium = \$17.3 B

Leading U.S. Market Position

Commercial Lines



Personal Lines



Business and Strategy

Strategic Focus

- ◆ Disciplined underwriting strategies and pricing models
- ◆ Leverage scale, capital and technology to provide high quality and high value insurance products and services
- ◆ Leverage and opportunistically expand diversified and well-established multi-channel distribution capabilities
- ◆ Selectively pursue strategic acquisitions and divest non-core and non-performing business lines
- ◆ Enhance financial strength and claims-paying ability ratings through earnings growth and capital generation

Personal Market P&C

Growth of NWP

(\$ in billions)

2002 – 2004 CAGR: 24.3%



Recent Strategic Actions

- ◆ Acquired Prudential's P&C business in October 2003
- ◆ Sale of Canadian personal lines business in April 2004

Breadth of Distribution

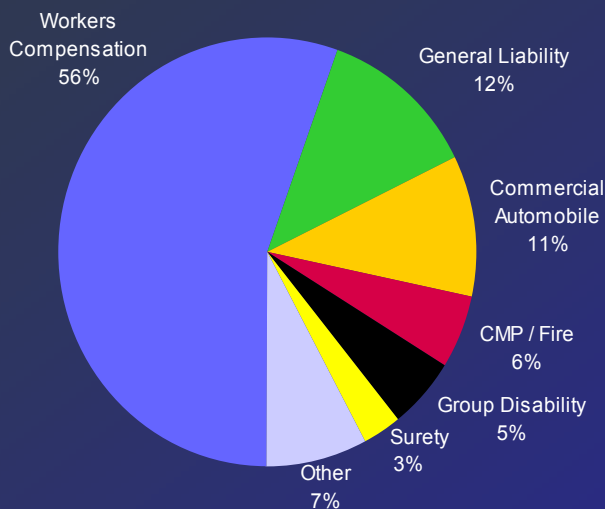
- ◆ Direct sales force of 1,200 agents
- ◆ Over 300 direct response sales counselors
- ◆ Nearly 8,000 affinity relationships
- ◆ 2,000 Prudential agents
- ◆ Internet

Segment Highlights

- ◆ 8th largest writer of personal lines P&C in the U.S.
- ◆ 75% of NWP is from personal auto
- ◆ Multi-variate tiered pricing strategy

Commercial Markets

Product Mix



2004 NWP = \$4.7 B

Marketing Groups

Segment	% of NWP	Description
Business Market	30%	Middle Markets
National Market	28	Large Company, Service Oriented
Wausau Comm. Market	21	Middle Markets
Specialty Risks Market	8	Commercial Property & Surety
Group Market	7	Group Life and Disability
Other Markets	$\frac{6}{100\%}$	Reinsurance & Involuntary pools

Distribution

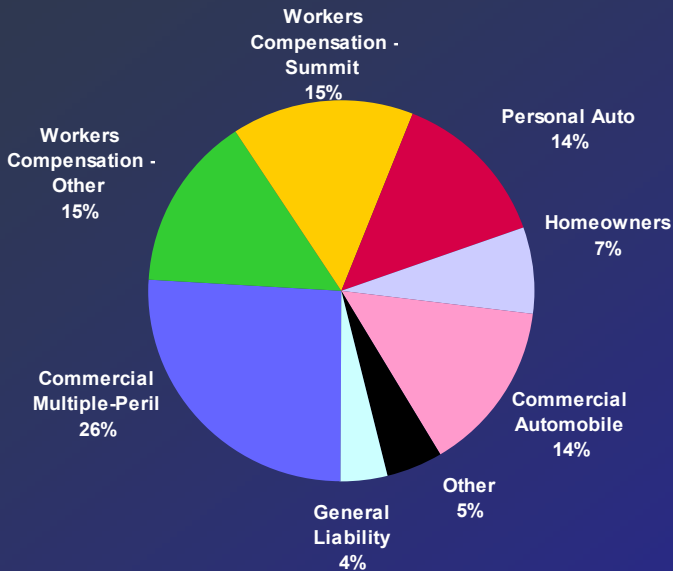
- ◆ Direct sales force
- ◆ Independent agents & brokers

Segment Highlights

- ◆ #5 writer of commercial lines in the U.S.
- ◆ A leading writer of workers compensation
- ◆ One of few successful national market providers

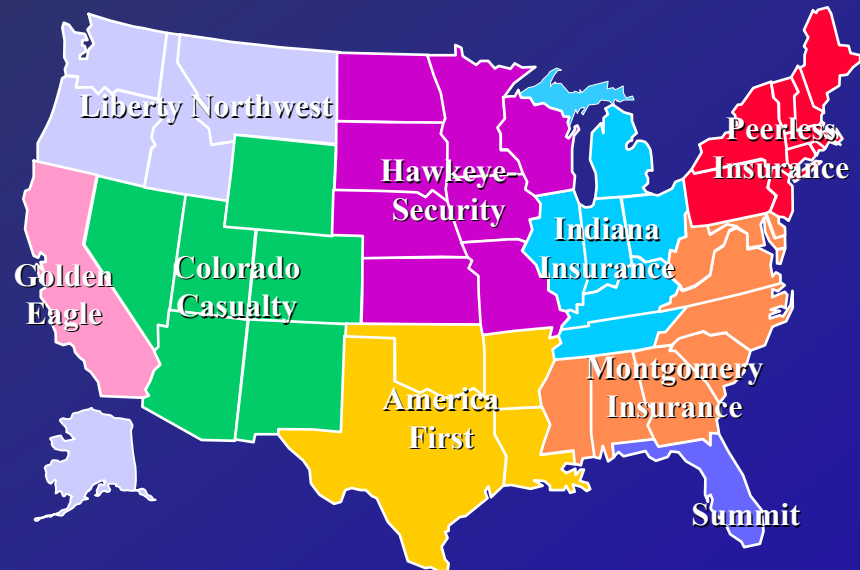
Regional Agency Markets (RAM)

Product Mix



2004 NWP = \$3.8 B

Marketing Groups



Distribution

- ◆ 5,500 independent agents and brokers

Segment Highlights

- ◆ Started operations in 1997
- ◆ Regionally focused with national scale
- ◆ OneBeacon renewal rights transaction

International

One of the only U.S. based insurance companies with a global focus

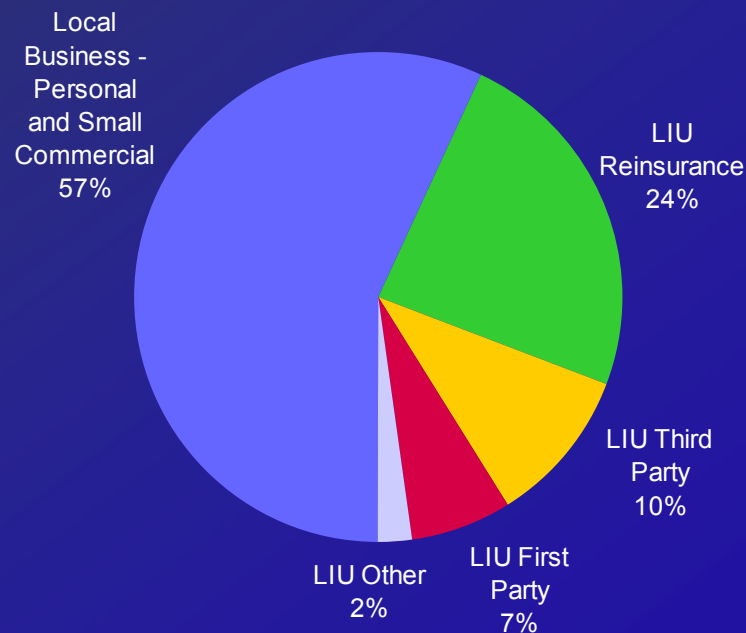
Personal and Small Commercial Businesses

- ◆ Sale of personal lines and small commercial products in selected countries
- ◆ South American presence with significant operations in Venezuela, Argentina, Colombia, Brazil and Chile
- ◆ Operations in Spain, Portugal and select Asian markets

Liberty International Underwriters

- ◆ Global commercial and specialty P&C operations including Lloyd's syndicate
- ◆ Strong underwriting team globally - opportunistic
- ◆ Risk management through monitoring of aggregations and effective use of reinsurance
- ◆ Lines of business include:
 - Marine, Energy, Engineering, Aviation, Specialty Casualty, Casualty and Reinsurance

Product Mix



2004 NWP = \$3.4 B

Financial Review

Financial Summary

(\$ in millions)

For the Year Ended December 31,

	2004	2003	2002
Net written premium	\$17,321	\$14,482	\$12,571
Earned premiums	16,563	13,956	11,902
Net investment income	2,102	1,762	1,590
Net realized investment gains	312	373	274
Fees and other revenue	664	527	524
Total revenues	\$19,641	\$16,618	\$14,290
Total claims, benefits and expenses	18,422	15,841	13,679
Pre-tax income	\$1,219	\$777	\$611
Fed & foreign income tax expense	-	-	(81)
Extraordinary items, net of tax	(3)	77	-
Discontinued operations, net of tax	29	(3)	(15)
Cumulative effect of changes in accounting principle	-	-	(7)
Net income (loss)	\$1,245	\$851	\$508
GAAP equity	8,697	7,381	6,447
ROE	15.5%	12.3%	8.2%

Combined Ratio

	For the Year Ended December 31,		
	2004	2003	2002
Combined ratio before catastrophes, net incurred attributable to prior years and discount accretion			
Claims and claim adjustment expense ratio	69.3%	71.4%	73.2%
Underwriting expense ratio	25.3	26.8	23.7
Dividend ratio	0.4	0.2	0.5
Subtotal	95.0	98.4	97.4
Catastrophes:			
—Four hurricanes 2004	3.2	-	-
—September 11, 2001	0.1	(0.6)	0.5
—All other	1.1	2.0	1.2
Net incurred attributable to prior years:			
—Asbestos	0.1	1.4	2.6
—Pollution	2.0	-	(0.1)
—All other	0.8	2.8	3.6
Discount accretion	0.6	0.5	0.4
Total combined ratio	102.9%	104.5%	105.6%

Strong Capitalization

(\$ in millions)

	December 31, 2004	
	<u>Actual</u>	<u>As Adjusted</u>
6.50% Senior Notes, due 2035	\$ -	\$500
5.75% Senior Notes, due 2014	500	500
7.00% Senior Notes, due 2034	250	250
Other Surplus Notes and Debt Obligations	1,340	1,340
Unamortized Discount	(16)	(16)
Total Long Term Debt	<u>\$2,074</u>	<u>\$2,574</u>
Unassigned Equity	7,439	7,439
Accumulated Other Comprehensive Income	1,258	1,258
Total Equity	<u>\$8,697</u>	<u>\$8,697</u>
Total Capitalization	<u>\$10,771</u>	<u>\$11,271</u>
Long Term Debt / Capitalization (incl. AOCI)	19.3%	22.8%
Long Term Debt / Capitalization (excl. AOCI)	21.8	25.7

Financial Strength

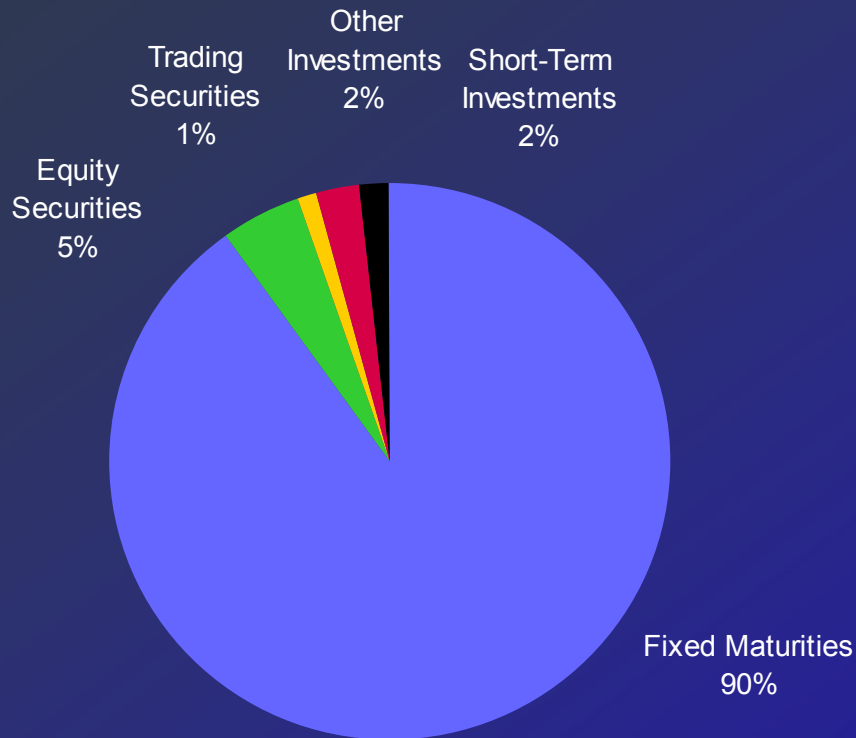
	A.M. Best	S&P	Moody's
Financial Strength Rating	A	A	A2
Rating Rank	3 rd	6 th	6 th
Outlook	Stable	Stable	Negative
Surplus Notes Rating	bbb+	BBB+	Baa2
Senior Debt Rating	bbb	BBB	Baa3

Significant Dividend Capacity

- ◆ Insurance operations provide nearly \$900 million, or 8x proforma statutory fixed charge coverage
- ◆ Service company provides an additional \$150 million, or 1.4x proforma statutory fixed charge coverage

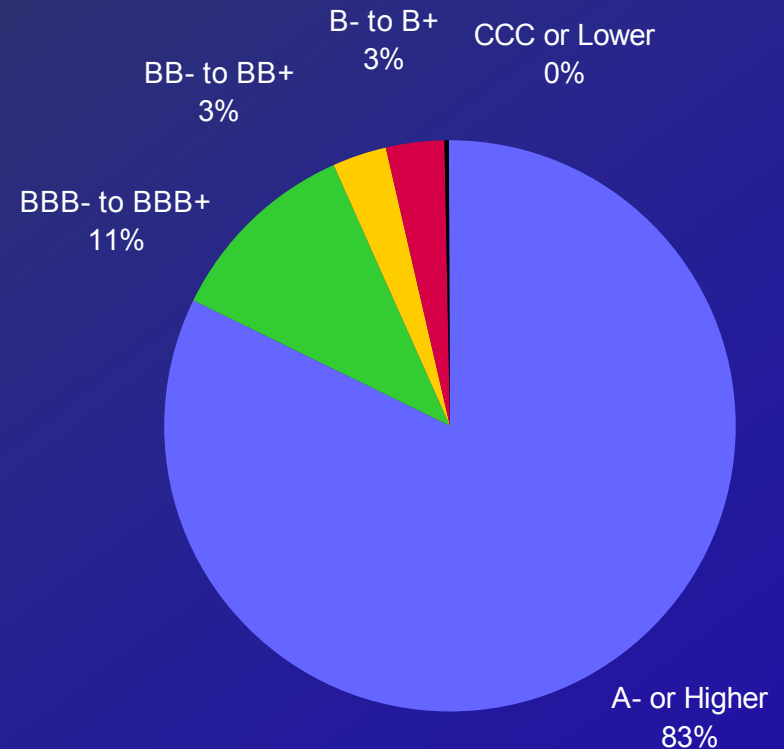
Conservative Investment Portfolio

Invested Assets



Total: \$39.5 B

Fixed Income Securities By Rating



Total: \$35.6 B

Distribution of Reinsurance Recoverables - 12/31/04

	S&P Rating:	Gross Rec.	Collateral	Net. Rec.	% of Total
Rated Entities	AAA	\$1,317	\$ 624	\$ 698	6%
	AA+, AA, AA-	3,905	1,248	2,758	24%
	A+, A, A-	3,772	133	3,651	33%
	BBB+, BBB, BBB-	292	213	104	1%
	BB+ or below	145	10	143	1%
	Subtotal		\$9,431	\$2,228	\$7,354
Pools & Assoc.	State mandated pools & assoc.	\$2,981	\$ 2	\$2,979	26%
	Voluntary	358	76	290	3%
	Subtotal	\$3,339	\$78	\$3,269	29%
Non-Rated Entities	Captives & program business	\$956	\$1,066	35	0%
	Other	832	217	681	6%
	Subtotal	\$1,788	\$1,283	\$716	6%
Grand Total		\$14,558	\$3,589	\$11,339	100%

Strong Reserve Position

- ◆ Quarterly review of reserves
- ◆ Completed a comprehensive review of pollution reserves in Q4 2004
- ◆ Both asbestos and environmental reserves have been reviewed by independent actuaries in 2003 and 2004, respectively
- ◆ Detailed Schedule P Supplement available on web site

Comprehensive Pollution Study

- ◆ Released results of comprehensive study of pollution exposures in March 2005:
 - Independent actuaries conducted a comprehensive review of reserves as of June 30, 2004, with full access to claims, legal, actuarial and financial data and personnel
- ◆ Increased reserves by \$232 million in the fourth quarter of 2004, bringing held reserves approximately \$50 million above independent actuary's best estimate
- ◆ Expect similar studies in the industry to emerge

Recap of Highlights

- ◆ Experienced management team
- ◆ Diversified personal and commercial lines P&C business supported by multi-channel distribution strategy
- ◆ Strong financial performance, balance sheet and capitalization
- ◆ Significant cash flow from insurance and non-insurance subsidiaries
- ◆ Comprehensive review of A&E reserves completed by independent actuaries