Liberty Mutual Group Reports Fourth Quarter and Full Year 2005 Results

BOSTON, Mass., March 1, 2006 – Liberty Mutual Group ("LMG" or the "Company") today reported net income of $253 million and $1.027 billion for the three and twelve months ended December 31, 2005, respectively, representing decreases of $312 million and $218 million from the same periods in 2004. Results in the quarter and year-to-date include $352 million and $949 million, respectively, of after-tax losses related to the 2005 hurricanes.

"We are pleased with our results for 2005," said Edmund F. Kelly, Liberty Mutual Group Chairman, President and CEO. "The fundamental strength of our businesses and our continued exceptional investment performance allowed us to absorb the unprecedented costs of the hurricane season and still report very good net income."

Fourth Quarter Highlights

- Revenues for the three months ended December 31, 2005 were $5.514 billion, an increase of $240 million or 4.6% over the same period in 2004.

- Net written premium for the three months ended December 31, 2005 was $4.452 billion, an increase of $343 million or 8.3% over the same period in 2004.

- Pre-tax income for the three months ended December 31, 2005 was $285 million, a decrease of $267 million or 48.4% from the same period in 2004.

- Cash flow from operations for the three months ended December 31, 2005 was $552 million, a decrease of $120 million or 17.9% from the same period in 2004.

- The combined ratio before catastrophes, net incurred losses attributable to prior years and discount accretion for the three months ended December 31, 2005 was 92.8%, an increase of 1.1 points over the same period in 2004. Including the impact of catastrophes, net incurred losses attributable to prior years and discount accretion, the Company's combined ratio increased 7.3 points to 105.6% in 2005.

Year-to-Date Highlights

- Revenues for the twelve months ended December 31, 2005 were $21.161 billion, an increase of $1.520 billion or 7.7% over the same period in 2004.

- Net written premium for the twelve months ended December 31, 2005 was $18.076 billion, an increase of $755 million or 4.4% over the same period in 2004.

- Pre-tax income for the twelve months ended December 31, 2005 was $1.130 billion, a decrease of $89 million or 7.3% from the same period in 2004.

- Cash flow from operations for the twelve months ended December 31, 2005 was $3.706 billion, an increase of $518 million or 16.2% over the same period in 2004.

- The combined ratio before catastrophes, net incurred losses attributable to prior years and discount accretion for the twelve months ended December 31, 2005 was 94.2%, a decrease of 0.8 points from the same period in 2004. Including the impact of catastrophes, net incurred losses attributable to prior years and discount accretion, the Company's combined ratio increased 2.8 points to 105.7% in 2005.

Financial Condition as of December 31, 2005

- Total assets increased to $78.824 billion as of December 31, 2005, an increase of $6.367 billion or 8.8% over December 31, 2004.

- Policyholders' equity was $8.858 billion as of December 31, 2005, an increase of $161 million or 1.9% over December 31, 2004.

- After-tax net unrealized gains on fixed maturities, as of December 31, 2005 were $279 million, a decrease of $580 million or 67.5% from December 31, 2004.

- Statutory surplus as regards policyholders for the combined operations of Liberty Mutual Insurance Company ("LMIC") and its U.S. affiliates was $9.869 billion, an increase of $1.130 billion or 12.9% over December 31, 2004.

- The consolidated debt-to-capital ratio including accumulated other comprehensive income ("AOCI") as of December 31, 2005 was 23.4%, an increase of 2.3 points over December 31, 2004. Excluding AOCI, the consolidated debt-to-capital ratio was 24.2%, an increase of 0.4 points over December 31, 2004.

Consolidated Results of Operations for the Three and Twelve Months Ended December 31, 2005:

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2005**	**2004**	**Change**	**2005**	**2004**	**Change**
Revenues	$5,514	$5,274	4.6%	$21,161	$19,641	7.7%
PTOI before catastrophes, net incurred losses attributable to prior years and discount accretion	$708	$683	3.7%	$2,563	$2,171	18.1%
Catastrophes[1,2]:						
- 2005 hurricanes	(541)	-	NM	(1,460)	-	NM
- 2004 hurricanes	24	41	(41.5)	(38)	(512)	(92.6)
- All other	(28)	(57)	(50.9)	(145)	(185)	(21.6)
Net incurred losses attributable to prior years:						
- Asbestos[3]	-	(3)	(100.0)	(210)	(3)	NM
- Pollution	(3)	(232)	(98.7)	(5)	(316)	(98.4)
- All other[4]	5	3	66.7	(2)	(150)	(98.7)
Discount accretion[5]	(24)	(26)	(7.7)	(96)	(98)	(2.0)
Pre-tax operating income	141	409	(65.5)	607	907	(33.1)
Realized investment gains, net	144	143	0.7	523	312	67.6
Federal and foreign income tax (expense)	(32)	-	NM	(91)	-	NM
Discontinued operations, net of tax	-	16	(100.0)	(12)	29	NM
Extraordinary items, net of tax	-	(3)	100.0	-	(3)	100.0
Net income	$253	$565	(55.2%)	$1,027	$1,245	(17.5%)

1 Catastrophe losses from assumed reinsurance lines (assumed voluntary reinsurance and reinsurance assumed through Lloyd's Syndicate 4472) relating to the 2005 hurricanes and the 2004 hurricanes have been separately identified in the tables above given the significance of these events. All other catastrophe losses from assumed reinsurance lines have not been separately identified or normalized given the expected volatility associated with these coverages. Losses related to the 2005 hurricanes for the three and twelve months ended December 31, 2005 include the reversal of $12 million and $110 million, respectively, of profit sharing on external reinsurance accrued in 2004 and the first half of 2005. In addition, losses related to the 2005 hurricanes and 2004 hurricanes are 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 Assumed catastrophe losses related to the 2005 hurricanes are reported net of estimated net catastrophe reinsurance premium earned of $55 million and $146 million for the three and twelve months ended December 31, 2005, respectively. Assumed catastrophe losses related to the 2004 hurricanes are reported net of estimated net catastrophe reinsurance premium earned of zero and $164 million for the comparable periods of 2004.

3 Net of allowance for doubtful accounts of $17 million for the three and twelve months ended December 31, 2005, and $1 million and $5 million for the comparable periods of 2004.

4 Net of earned premium attributable to prior years of $46 million and $86 million for the three and twelve months ended December 31, 2005, respectively, and $38 million and $93 million for the comparable periods of 2004. Net of amortization of deferred gains on retroactive reinsurance of $19 million and $97 million for the three and twelve months ended December 31, 2005, respectively, and $11 million and $46 million for the comparable periods of 2004.

5 The Company discounts the long-term indemnity portion of its workers compensation claims as permitted by insurance regulations. The discount accretion on these claims is included in underwriting results as the loss reserves accrete to nominal value. Asbestos structured settlements are discounted at 4.5%.

NM = Not Meaningful (represents increases or decreases greater than 200%, or changes from a net gain to a net loss, or vice versa).

Financial Information: Liberty Mutual Group's financial results, management's discussion and analysis of operating results and financial condition, accompanying financial statements and other supplemental financial information for the three and twelve months ended December 31, 2005 are available on the Company's Investor Relations web site at www.libertymutual.com/investors.

Conference Call Information: At 2:00 p.m. EST today, Edmund F. Kelly, Liberty Mutual Group Chairman, President and CEO, will host a conference call to discuss the Company's financial results. To listen to the call and participate in Q&A, please dial 877-825-5811 fifteen minutes before the starting time using conference ID number 6955815. A replay will be available until March 8, 2006, at 877-519-4471 using the reservation number 6955815.

About Liberty Mutual Group

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 2004 direct written premium. The Company also ranks 111th on the Fortune 500 list of largest corporations in the United States based on 2004 revenue. As of December 31, 2005, LMG had $78.824 billion in consolidated assets and $21.161 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.

Functionally, the Company conducts its business through four strategic business units: Personal Market, Commercial Markets, Agency Markets (formerly Regional Agency Markets but now includes Wausau and Surety) 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 39,000 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.

Forward-Looking Statements

This press release contains forward-looking statements concerning LMG's future financial and business performance. These statements represent LMG's beliefs concerning future operations, strategies, financial results or other developments, and contain words such as "may," "expects," "should," "believes," "estimates," or similar expressions. Because these forward-looking statements are based on 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. In particular, the sufficiency of LMG's reserves for asbestos, environmental and toxic tort claims, ("A&E"), as well as its results of operations, financial condition and liquidity, to the extent impacted by the sufficiency of the A&E reserves, are subject to a number of potential adverse developments, including adverse developments involving A&E claims and the related outcome of litigation, the willingness of parties to settle disputes, the interpretation of aggregate coverage limits, LMG's ability to recover reinsurance for A&E and other claims, the legal, economic, regulatory, and legislative environments, and their impact on the future development of A&E claims, and the impact of bankruptcies of various asbestos producers and related businesses. Other factors that could cause actual results to differ include: LMG's inability to obtain price increases due to competition or otherwise; the performance of LMG's investment portfolios, weakening U.S. and global economic conditions; insufficiency of loss reserves; the occurrence of natural or man-made catastrophic events exceeding LMG's expectations; adverse changes in loss cost trends, adverse developments in the cost, availability and/or ability to collect reinsurance; the ability of LMG's subsidiaries to pay dividends to LMG; adverse results or other consequences from legal proceedings or regulatory investigations or reforms, including governmental actions regarding the compensation of brokers and agents and the sale of nontraditional products and related disclosures; unusual loss activity resulting from adverse weather conditions, including storms, hurricanes, hail, snowfall and winter conditions; the tax impact of the repatriation of foreign earnings; larger than expected assessments for guaranty funds and involuntary market pools; a downgrade in LMG's insurance subsidiaries' ratings; restrictions on LMG'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. LMG's forward-looking statements speak only as of the date of this release or as of the date they are made and should be regarded solely as LMG's current estimates and beliefs. LMG undertakes no obligation to update these forward-looking statements. For a further discussion of these and other risks and uncertainties, see LMG's web site at www.libertymutual.com/investors.

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