Liberty Mutual Group Reports Third Quarter 2006 Results

BOSTON, Mass., November 3, 2006 – Liberty Mutual Group ("LMG" or the "Company") today reported net income of $556 million and $1.171 billion for the three and nine months ended September 30, 2006, respectively, an increase of $678 million and $397 million over the same periods in 2005. The increase in both periods primarily reflects the continuation of strong current accident year underwriting and investment results and lower catastrophe losses.

"Our results in the third quarter across all financial measures were excellent," said Edmund F. Kelly, Liberty Mutual Group Chairman, President and CEO. "Fundamentally our operating results were very good, revenue growth continued at a strong pace, and favorable weather conditions contributed to making this an exceptional quarter."

Third Quarter Highlights

- Revenues for the three months ended September 30, 2006 were $6.014 billion, an increase of $628 million or 11.7% over the same period in 2005.
- Net written premium for the three months ended September 30, 2006 was $5.159 billion, an increase of $613 million or 13.5% over the same period in 2005.
- Pre-tax income for the three months ended September 30, 2006 was $794 million, an increase of $984 million over the same period in 2005. Results in the quarter include an $840 million decrease in catastrophe losses from the same period in 2005, as prior year results included the impact of Hurricanes Katrina and Rita. Results in the period also include an increase of $69 million in realized capital gains.
- Cash flow from operations for the three months ended September 30, 2006 was $1.234 billion, a decrease of $173 million or 12.3% from the same period in 2005.
- The combined ratio before catastrophes, net incurred losses attributable to prior years and discount accretion for the three months ended September 30, 2006 was 94.7%, an increase of 3.1 points over the same period in 2005. Including the impact of catastrophes, net incurred losses attributable to prior years and discount accretion, the Company's combined ratio decreased 20.3 points from 2005 to 98.0% in 2006.

Year-to-Date Highlights

- Revenues for the nine months ended September 30, 2006 were $17.512 billion, an increase of $1.865 billion or 11.9% over the same period in 2005.
- Net written premium for the nine months ended September 30, 2006 was $15.813 billion, an increase of $2.189 billion or 16.1% over the same period in 2005.
- Pre-tax income for the nine months ended September 30, 2006 was $1.681 billion, an increase of $836 million or 98.9% over the same period in 2005. Results year-to-date include a $668 million decrease in catastrophe losses from the same period in 2005, as prior year results included the impact of Hurricanes Katrina and Rita. Results in the period also include a decrease of $68 million in realized capital gains.
- Cash flow from operations for the nine months ended September 30, 2006 was $2.858 billion, a decrease of $296 million or 9.4% from the same period in 2005.
- The combined ratio before catastrophes, net incurred losses attributable to prior years and discount accretion for the nine months ended September 30, 2006 was 95.1%, an increase of 0.6 points over the same period in 2005. Including the impact of catastrophes, net incurred losses attributable to prior

years and discount accretion, the Company's combined ratio decreased 6.0 points from 2005 to 99.7% in 2006.

Financial Condition as of September 30, 2006

- Total assets were $84.156 billion as of September 30, 2006, an increase of $5.332 billion or 6.8% over December 31, 2005.

- Policyholders' equity was $10.006 billion as of September 30, 2006, an increase of $1.148 billion or 13.0% over December 31, 2005.

- Statutory surplus as regards policyholders for the combined operations of Liberty Mutual Insurance Company ("LMIC") and its U.S. affiliates was $11.508 billion as of September 30, 2006, an increase of $1.639 billion or 16.6% over December 31, 2005.

- The consolidated debt-to-capital ratio including accumulated other comprehensive income ("AOCI") as of September 30, 2006 was 25.0%, an increase of 1.6 points over December 31, 2005. Excluding AOCI, the consolidated debt-to-capital ratio was 25.7%, an increase of 1.5 points from December 31, 2005.

Consolidated Results of Operations for the Three and Nine Months Ended September 30, 2006:

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2006**	**2005**	**Change**	**2006**	**2005**	**Change**
Revenues	$6,014	$5,386	11.7%	$17,512	$15,647	11.9%
PTOI before catastrophes, net incurred losses attributable to prior years and discount accretion	$710	$779	(8.9%)	$2,005	$1,855	8.1 %
Catastrophes[1]:						
- 2005 hurricanes[2,3]	(40)	(928)	(95.7)	(81)	(919)	(91.2)
- All other	(91)	(43)	111.6	(336)	(166)	102.4
Net incurred losses attributable to Prior years:						
- Asbestos	(1)	(208)	(99.5)	(2)	(210)	(99.0)
- All other[4]	(3)	69	NM	(137)	(5)	NM
Discount accretion[5]	(23)	(32)	(28.1)	(79)	(89)	(11.2)
Pre-tax operating income (loss)	552	(363)	NM	1,370	466	194.0
Realized investment gains, net	242	173	39.9	311	379	(17.9)
Federal and foreign income tax (expense) benefit	(238)	68	NM	(510)	(59)	NM
Discontinued operations, net of tax	-	-	-	-	(12)	(100.0)
Net income (loss)	$556	($122)	NM	$1,171	$774	51.3%

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 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 hurricanes and the 2005 hurricanes. Losses related to the 2005 hurricanes for the three and nine months ended September 30, 2006 include the reversal of $39 million and $29 million, respectively, and the three and nine months ended September 30, 2005 include the reversal of $98 million in both periods of profit sharing on external reinsurance accrued in 2004 and the first half of 2005. In addition, losses related to the 2005 hurricanes and the 2004 hurricanes 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 Assumed catastrophe losses related to the 2005 hurricanes are reported net of related net catastrophe reinsurance premium earned of $82 million and $91 million for the three and nine months ended September 30, 2005, respectively.

3 Losses incurred by LIU's Reinsurance line of business related to Hurricane Rita were classified as part of normal operations in the third quarter of the prior year, but were reclassified as catastrophe losses in the fourth quarter of 2005. These losses have been classified as catastrophe losses in the current presentation.

4 Net of earned premium attributable to prior years of ($18) million and $16 million for the three and nine months ended September 30, 2006, respectively, and $31 million and $40 million for the comparable periods of 2005. Net of amortization of deferred gains on retroactive reinsurance of $15 million and $46 million for the three and nine months ended September 30, 2006, respectively, and $21 million and $79 million for the comparable periods of 2005.

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 for voluntary and involuntary business accrete to nominal value. In 2006, Commercial Markets reclassified the discount accretion related to involuntary market workers compensation long-term indemnity claims from net incurred losses attributable to prior years to discount accretion. Results for 2005 reflect this reclassification. 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 nine months ended September 30, 2006 are available on the Company's Investor Relations web site at www.libertymutual.com/investors.

Conference Call Information: At 1:00 p.m. EDT 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 7280170. A replay will be available until November 10, 2006 at 877-519-4471 using the reservation number 7280170.

About Liberty Mutual Group

Liberty Mutual Group is a diversified global insurer and sixth largest property and casualty insurer in the U.S. based on 2005 direct written premium. The Company also ranks 102nd on the Fortune 500 list of largest corporations in the United States based on 2005 revenue. As of December 31, 2005, LMG had $78.824 billion in consolidated assets, $69.966 billion in consolidated liabilities, 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, Liberty Mutual Fire Insurance Company ("LMFIC") and Employers Insurance Company of Wausau ("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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