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

Quarter Ended March 31, 2004

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

The following discussion highlights significant factors influencing results of operations and changes in financial position of Liberty Mutual Holding Company Inc. (the "Company" or "LMG") for the three months ended March 31, 2004 and 2003. This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Company's Annual Report. 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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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, 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 ((i), (ii), and (iii) together "A&E")), as well as its results of operations, financial condition and liquidity, to the extent impacted by the sufficiency of the Company's A&E reserves, are subject to a number of potential adverse developments including adverse developments involving A&E 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 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 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 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, 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 auto 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 ability of the Company's subsidiaries to pay dividends to the Company; adverse outcomes in legal proceedings; 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. 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 and 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 and Analysis of Financial Condition and Results of Operations.

2004 1st Quarter Consolidated Results of Operations

- Revenues for the three months ended March 31, 2004 were $4.704 billion, a $1.074 billion or 29.6% increase over the same period in 2003.

- Net income for the three months ended March 31, 2004 was $284 million, a $270 million increase over the same period in 2003.

- The combined ratio for the three months ended March 31, 2004 was 103.7%, a 2.0 percentage point improvement over the same period in 2003.

- Net incurred losses attributable to prior years[1] were $103 million and $93 million for the three months ended March 31, 2004 and 2003, respectively.

2004 1st Quarter Financial Condition

- Total assets increased to $69.717 billion in the first quarter of 2004, a $5.295 billion or 8.2% increase over December 31, 2003.

- Policyholders' equity as of March 31, 2004 was $7.993 billion, a $612 million increase over December 31, 2003.

- Net unrealized gains on fixed maturities securities as of March 31, 2004 were $2.025 billion, a $610 million or 43.1% increase over December 31, 2003.

- Cash flow from operations was $849 million and $637 million for the three months ended March 31, 2004 and 2003, respectively.

Other 2004 1st Quarter Highlights

Acquisitions

- On January 9, 2004, the Company acquired the Spanish operations of The Metropolitan Life Insurance Company, including its property and casualty subsidiary, Genesis Seguros Generales, S.A., and its life insurance subsidiary, Seguros Genesis, S.A., Sociedad Unipersonal (collectively, "Genesis").

Debt Transaction

- On March 23, 2004, Liberty Mutual Group Inc. ("LMGI") issued $500 million of 5.75% unsecured senior notes due 2014 and $250 million of 7.00% unsecured senior notes due 2034.

[1] Net incurred losses attributable to prior years is defined as incurred losses attributable to prior years including retroactive reinsurance gain amortization and net of earned premium attributable to prior years and excluding discount accretion.

Events Subsequent to March 31, 2004

Dispositions

- On April 1, 2004, the Company completed the sale of its Canadian personal lines business, consisting of private passenger automobile, homeowners and personal property insurance, to Meloche Monnex, Inc., a member of TD Bank Financial Group ("Meloche Monnex"). The transaction resulted in the transfer of approximately 350,000 automobile and homeowners insurance policies and approximately $300 million (C$390 million) in direct written premiums to Meloche Monnex. The parties have not disclosed financial terms for the transaction and the Company believes the financial terms are not material to its business, financial condition or results of operations.

Debt Transactions

- On April 12, 2004, Liberty Mutual Insurance Company ("LMIC") tendered for $129 million of its 8.20% Surplus Notes due 2007. LMIC realized a loss of approximately $18 million on the tender, which will be recorded in the second quarter of 2004.

- On April 16 2004, LMGI repaid approximately $130 million of notes due in 2008 to Prudential Financial Inc. ("Prudential") issued in connection with its acquisition of Prudential's U.S. personal lines property and casualty business.

Capital Contribution to Insurance Subsidiaries

- In April 2004, LMGI made a series of capital contributions totaling approximately $582 million to its wholly-owned insurance subsidiaries LMIC, Liberty Mutual Fire Insurance Company ("LMFIC") and Employers Insurance Company of Wausau ("EICOW") using proceeds from LMGI's March 23, 2004 debt issuance.

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 net income excluding net realized gains (losses), Federal and foreign income taxes, extraordinary items, discontinued operations and cumulative effect of a change in accounting principle. PTOI is considered by the Company to be an appropriate indicator of underwriting and operating results and is consistent with the way the Company internally evaluates performance. 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 including valuation allowances. 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, plus reinsurance assumed and net of reinsurance ceded. "Earned premium" 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 reflects current trends in the Company's sale of property and casualty 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.

(1) Overview – Consolidated

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

	Three Months Ended March 31,		
$ in Millions	**2004**	**2003**	**Change**
Private Passenger Automobile	$1,360	$1,012	34.4%
Workers Compensation	1,164	1,082	7.6
Commercial Automobile	291	239	21.8
Liberty International Underwriters – Reinsurance	290	212	36.8
Homeowners	306	204	50.0
Commercial Multiple Peril	263	241	9.1
International Local Businesses – Small Commercial and Other Personal	203	189	7.4
General Liability	185	168	10.1
Liberty International Underwriters – Third Party	81	72	12.5
Liberty International Underwriters – First Party	67	56	19.6
Group Disability	60	63	(4.8)
Liberty International Underwriters – Other	42	27	55.6
Fire	38	31	22.6
Assumed Reinsurance	36	33	9.1
Other	184	177	4.0
Total net written premium	$4,570	$3,806	20.1%

Consolidated net written premium by strategic business unit was as follows:

	Three Months Ended March 31,		
Data in Millions	**2004**	**2003**	**Change**
Commercial Markets	$1,452	$1,341	8.3%
Personal Market	1,246	912	36.6
Regional Agency Markets	979	862	13.6
International	949	697	36.2
Corporate and Other	(56)	(6)	NM
Total net written premium	$4,570	$3,806	20.1%

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

Net written premium for the three months ended March 31, 2004 was $4.570 billion, a $764 million or 20.1% increase over the comparable period in 2003. An increase in net written premium occurred in each of the Company's operating Strategic Business Units and across most of the Company's major lines of business. Acquisition activity accounted for approximately 49% of the increase with Prudential contributing $267 million, and the acquisitions in Spain, Portugal, and Thailand contributing $106 million. Approximately $41 million of the increase was due to the reduction in ceded premium to OneBeacon Insurance Company. The balance of the increase reflects new business growth and the favorable impact of continued rate increases and improved retention levels on renewal business across many of the Company's major product lines. For a full description of the Company's business operations, products and distribution channels, please visit the Company's Investor Relations website at **www.libertymutual.com/investors.**

(2) Results of Operations – Consolidated

	Three Months Ended March 31,		
$ in Millions	**2004**	**2003**	**Change**
Revenues	$4,704	$3,630	29.6%
PTOI before catastrophes and incurred attributable to prior years	$400	$243	64.6
Catastrophes:			
- Natural	(39)	(33)	18.2
- September 11, 2001	-	-	-
Net incurred attributable to prior years:			
- Asbestos	-	(46)	NM
- All other[1]	(103)	(47)	119.1
Discount accretion[2]	(33)	(24)	37.5
Pre-tax operating income	225	93	141.9
Realized investment gains (losses), net	57	(74)	NM
Federal and foreign income tax expense	-	(3)	NM
Discontinued operations, net of tax	2	(2)	NM
Net income	$284	$14	NM

[1] Net of earned premium attributable to prior years of $20 million and $17 million for the three months ended 2004 and 2003, respectively.
[2] The Company discounts the long-term indemnity portion of its workers compensation claims and the Company's disability claims based on permitted insurance regulations. The discount accretion on these claims flows through the underwriting results as the loss reserves accrete to nominal value. Asbestos settlements are discounted at 4.5%.
NM = Not Meaningful

Revenues for the three months ended March 31, 2004 were $4.704 billion, a $1.074 billion or 29.6% increase over the same period in 2003. The major components of revenues include net premiums earned, net investment income, net realized capital gains/losses, and fee and other revenues.

Net premiums earned for the three months ended March 31, 2004 were $3.967 billion, an $814 million or 25.8% increase over the same period in 2003. Approximately $379 million of the increase was due to the acquisition of PruPac and the Company's acquisitions in Spain, Portugal, and Thailand. Other factors affecting earned premium growth were a $77 million increase related to the reduction in ceded premium to OneBeacon Insurance Company and a decrease of $67 million related to the sale of the Company's Canadian health business at the end of June 2003. The balance of the increase reflects new business growth, the favorable impact of continued rate increases in 2003 and 2004, and improved retention levels on renewal business across many of the Company's major product lines.

Net investment income for the three months ended March 31, 2004 was $502 million, a $88 million or 21.3% increase over the same period in 2003. The change was primarily due to an increase in average invested assets relating to increased cash flow from operations and acquired companies, partially offset by a decline in investment yields. An improvement in limited partnership results accounted for $38 million of the increase. For the three months ended 2004 and 2003, the Company had limited partnership income of $28 million and a loss of $10 million, respectively.

Net realized investment gains for the three months ended March 31, 2004 were $57 million, a $131 million increase over the same period in 2003. During the first quarter of 2004, the Company realized $51 million and $9 million of gains from the sale of fixed maturities and equities, respectively. This compares to $37 million and $39 million of realized losses on the sale of fixed maturities and equities, respectively, in the first quarter of 2003. Included in those amounts were $14 million and $27 million of impairment losses for the three months ended March 31, 2004 and 2003, respectively. In the first quarter of 2004, the Company contributed one of its energy holdings to a new limited partnership in exchange for an interest in the new partnership. The final valuations underlying the accounting by the General Partner are expected to be

completed in the third quarter of 2004. Upon completion of the merger accounting, the Company could realize a gain on the transaction.

Fee and other revenues for the three months ended March 31, 2004 were $178 million, a $41 million or 29.9% increase over the same period in 2003. The increase was primarily attributable to higher ceding commission revenues earned from the Company's servicing carrier operations.

Claims, benefits and expenses for the three months ended March 31, 2004 were $4.422 billion, a $811 million or 22.5% increase over the same period in 2003. The increase was primarily due to acquisition activity which added $386 million and claims associated with business growth. Net incurred losses attributable to prior years were $103 million for the first quarter of 2004 versus $93 million for the comparable period in 2003. Catastrophe losses were $39 million and $33 million in the first quarters of 2004 and 2003, respectively.

	Three Months Ended March 31,		
	2004	**2003**	**Change (points)**
CONSOLIDATED combined ratio, before catastrophes and incurred attributable to prior years			
Claims and claim adjustment expense ratio	72.9%	73.4%	(0.5)
Underwriting expense ratio	26.1	26.8	(0.7)
Dividend ratio	0.3	0.6	(0.3)
Subtotal	99.3	100.8	(1.5)
Catastrophes			
- Natural	1.0	1.1	(0.1)
- September 11, 2001	-	-	-
Net incurred attributable to prior years			
- Asbestos	-	1.5	(1.5)
- All other	2.6	1.5	1.1
Discount accretion	0.8	0.8	-
Total combined ratio[1]	103.7%	105.7%	(2.0)

[1] 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, expressed as a percentage, 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 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.

The consolidated combined ratio in the three months ended March 31, 2004 was 103.7%, a 2.0 percentage point improvement over the comparable period in 2003. The improvement reflects the favorable impact of rate increases and a decline in the underwriting expense and dividend ratios. Additionally, net incurred attributable to prior years improved 0.4 percentage points in the first quarter of 2004, compared to the same period in 2003.

Pre-tax income for the three months ended March 31, 2004 was $282 million, a $263 million increase over the same period in 2003.

Net income for the three months ended March 31, 2004 was $284 million, a $270 million increase over the same period in 2003. The Company recognized no federal and foreign income tax expense during the first quarter of 2004 as it continues to reduce the deferred tax asset valuation allowance. Net income from discontinued operations primarily reflects the operations of the Canadian personal lines business which was sold to Meloche Monnex on April 1, 2004.

COMMERCIAL MARKETS

(1) Overview – Commercial Markets

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

	Three Months Ended March 31,		
$ in Millions	**2004**	**2003**	**Change**
Business Market	$ 468	$ 415	12.8%
National Market	368	410	(10.2)
Wausau Commercial Market	339	283	19.8
Group Market	82	84	(2.4)
Specialty Risks	76	56	35.7
Other Markets	119	93	28.0
Total net written premium	$1,452	$1,341	8.3%

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

	Three Months Ended March 31,		
$ in Millions	**2004**	**2003**	**Change**
Workers Compensation	$ 905	$ 851	6.3%
Commercial Automobile	163	128	27.3
General Liability	148	137	8.0
Group Disability	60	63	(4.8)
Assumed Voluntary Reinsurance	36	33	9.1
Surety	33	17	94.1
Fire	32	26	23.1
Commercial Multiple Peril	29	37	(21.6)
Other	46	49	(6.1)
Total net written premium	$1,452	$1,341	8.3%

Net written premium for the three months ended March 31, 2004 was $1.452 billion, a $111 million or 8.3% increase over the same period in 2003. The increase was due to the non-renewal of certain workers compensation excess of loss reinsurance treaties in the second quarter of 2003, new business growth and the favorable impact of continued rate increases and improved retention levels on renewal business across most product lines and market segments. In National Market, the decrease in net written premium reflects both a return of premium on retrospectively rated policies, as well as a shift in customer risk tolerance resulting in more large dollar deductible ("LDD") policies. Notwithstanding the decrease in net written premium, National Market's retention levels on renewal business increased to 95.4% from 88.4% in the first three months of 2004 and 2003, respectively. Rate increases for the three months ended March 31, 2004 for Commercial Markets' principal products, workers compensation, commercial automobile and general liability, were on average approximately 10% to 13%.

(2) Results of Operations – Commercial Markets

	Three Months Ended March 31,		
$ in Millions	**2004**	**2003**	**Change**
Revenues	$1,327	$1,192	11.3%
PTOI before catastrophes and incurred attributable to prior years	$111	$97	14.4
Catastrophes:			
- Natural	-	(1)	NM
Net incurred attributable to prior years:			
- All other[1]	(13)	(12)	8.3
Discount accretion[2]	(30)	(24)	25.0
Pre-tax operating income	68	60	13.3
Realized investment gains, net	-	-	-
Federal and foreign income tax expense	(24)	(21)	14.3
Net income	$44	$39	12.8%

1 Net of earned premium attributable to prior years of $15 million and $10 million for the first quarter of 2004 and 2003, respectively.

2 The Company discounts the long-term indemnity portion of its workers compensation claims and the Company's disability claims based on permitted practices under insurance regulations. The discount accretion on these claims flows through incurred attributable to prior years as the loss reserves accrete to nominal value.

NM= Not meaningful

Revenues for the three months ended March 31, 2004 were $1.327 billion, a $135 million or 11.3% increase over the same period in 2003. The major components of revenues include net premiums earned, net investment income and fee and other revenues.

Earned premiums for the three months ended March 31, 2004 were $1.050 billion, a $99 million or 10.4% increase over the same period in 2003. The increase was due to new business growth and the favorable impact of continued rate increases and improved retention levels on renewal business across many of the Company's major product lines.

Net investment income for the three months ended March 31, 2004 was $172 million, a $9 million or 5.5% increase over the same period in 2003. The increase reflects an increase in invested assets, partially offset by declining investment yields.

Fee and other revenues for the three months ended March 31, 2004 were $105 million, a $27 million or 34.6% increase over the same period in 2003. The increase was primarily due to higher ceding commission revenues from Servicing Carrier operations. The Company's Servicing Carrier operations provide administrative and loss prevention services to state mandated involuntary pools and associations for workers compensation and commercial automobile risks. Fee revenues earned are directly related to the growth in the involuntary pools and associations. Other sources of fee revenue come from the Company's subsidiary, Helmsman Management Services, a third party administrator and from other miscellaneous services provided by the Company.

Claims, benefits and expenses for the three months ended March 31, 2004 were $1.259 billion, a $127 million or 11.2% increase over the same period in 2003. The increase primarily reflects new business growth over the comparable period. Another factor affecting the increase in the first quarter of 2004 was the non-renewal of workers compensation excess of loss reinsurance treaties in the second quarter of 2003. The non-renewal of those treaties resulted in a $30 million increase in retained claims, benefits and expenses in the first quarter of 2004.

	Three Months Ended March 31,		
	2004	**2003**	**Change (points)**
COMMERCIAL MARKETS combined ratio, before catastrophes and incurred attributable to prior years			
Claims and claim adjustment expense ratio	81.5%	78.8%	2.7
Underwriting expense ratio	21.4	23.8	(2.4)
Dividend ratio	0.5	0.9	(0.4)
Subtotal	103.4	103.5	(0.1)
Catastrophes			
- Natural	-	0.1	(0.1)
Net incurred attributable to prior years			
- Asbestos	-	-	-
- All other	1.2	1.2	-
Discount accretion	2.8	2.6	0.2
Total combined ratio	107.4%	107.4%	-

Commercial Markets reported a combined ratio of 107.4% for the three months ended March 31, 2004, which was unchanged from the same period in 2003. Including the effects of catastrophe losses, net incurred losses attributable to prior years and discount accretion, the Commercial Markets claims and claims adjustment expense ratio deteriorated 2.8 percentage points to 85.5%. Approximately 2.0 percentage points of the increase in the claims and claims adjustment ratio was due to the non-renewal of the aforementioned workers compensation excess of loss reinsurance treaties. Conversely, Commercial Markets net underwriting expense ratio improved by 2.4 percentage points largely due to the effects of higher premium volumes and an increase in servicing carrier operations revenue. The Commercial Markets combined ratio is adversely impacted by its product mix; specifically, its LDD policies. A significant portion of the Company's business is written on an LDD basis, which typically has a higher combined ratio than business written on a fully insured basis due to the timing of loss payments. Excluding the effects of LDD business, Commercial Markets' combined ratio would improve by approximately three percentage points in both periods.

PTOI for the three months ended March 31, 2004 was $68 million, an $8 million or 13.3% increase over the same period in 2003. Consistent with the increase in profitability, Federal income taxes for the same period were $24 million, a $3 million or 14.3% increase over the same period in 2003.

Net income for the three months ended March 31, 2004 was $44 million, a $5 million or 12.8% increase over the same period in 2003.

PERSONAL MARKET

(1) Overview – Personal Market

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

	Three Months Ended March 31,		
$ in Millions	**2004**	**2003**	**Change**
Private Passenger Automobile	$ 966	$ 740	30.5%
Homeowners and Other	280	172	62.8
Total net written premium	$1,246	$ 912	36.6%

Net written premium for the three months ended March 31, 2004 was $1.246 billion, a $334 million or 36.6% increase over the same period in 2003. The increase reflects $267 million of net written premium related to the acquisition of PruPac, continued rate increases, an improvement in retention levels on renewal business in both automobile and homeowners and new business growth.

Private passenger automobile net written premium for the three months ended March 31, 2004 was $966 million, a $226 million or 30.5% increase over the same period in 2003. Approximately $177 million of the increase in net written premium was related to the PruPac acquisition. Other factors affecting growth during the comparable period were:

- Retention levels on renewal business, excluding PruPac, increased to 91.1% from 89.8% in the first quarter of 2004 and 2003, respectively;
- Renewal price increases, excluding PruPac, on automobile business averaged 2.7% in the first quarter of 2004, down from an average of 6.4% in the same period in 2003; and
- Policies in force as of March 31, 2004, excluding the PruPac operations, increased 4.8% over March 31, 2003.

Homeowners and Other net written premium for the three months ended March 31, 2004 was $280 million, a $108 million or 62.8% increase over the same period in 2003. Approximately $90 million of the increase in net written premium was related to the PruPac acquisition. Other factors affecting growth during the comparable period were:

- Retention levels on renewal business, excluding PruPac, increased to 90.6% from 89.7% in the first quarter of 2004 and 2003, respectively;
- Renewal price increases, excluding PruPac, on homeowners business averaged 8.4% in the first quarter of 2004, down from an average of 17.2% in the same period in 2003; and
- Policies in force as of March 31, 2004, excluding the PruPac operations, increased 6.1% over the March 31, 2003.

(2) Results of Operations – Personal Market

	Three Months Ended March 31,		
$ in Millions	**2004**	**2003**	**Change**
Revenues	$1,319	$921	43.2%
PTOI before catastrophes and incurred attributable to prior years	$127	$ 83	53.0%
Catastrophes	(30)	(19)	57.9
Net incurred attributable to prior years:	-	(8)	NM
Pre-tax operating income	97	56	73.2
Realized investment gains, net	-	-	-
Federal and foreign income tax (expense)	(34)	(20)	70.0
Discontinued operations	1	(2)	NM
Net income	$ 64	$ 34	88.2%

NM = Not meaningful

Revenues for the three months ended March 31, 2004 were $1.319 billion, a $398 million or 43.2% increase over the same period in 2003. The major components of revenues include net premiums earned, net investment income and fee and other revenue.

Net premiums earned for the three months ended March 31, 2004 were $1.234 billion, a $378 million or 44.2% increase over the same period in 2003. The increase reflects $281 million of earned premium related to the acquisition of PruPac, new business growth and the favorable impact of continued rate increases and improved retention levels on renewal business across the automobile and homeowners lines.

Net investment income for the three months ended March 31, 2004 was $71 million, an $18 million or 34.0% increase over the same period in 2003. Approximately $16 million of the increase in investment income is due to the increase in invested assets resulting from the Prudential acquisition. The balance of the increase reflects an increase in invested assets, partially offset by declining investment yields.

Fee and other revenues for the three months ended March 31, 2004 were $14 million, a $2 million or 16.7% increase over the same period in 2003. Installment fees related to customer payments represent the majority of the revenues in this category.

Claims, benefits and expenses for the three months ended March 31, 2004 were $1.222 billion, a $357 million or 41.3% increase over the same period in 2003. The increase reflects approximately $283 million of claims, benefits and expenses associated with the acquisition of PruPac and $11 million resulting from increased catastrophe losses. The balance of the increase was due to the business growth over the comparable period in 2003. Partially offsetting the increase in claims, benefits and expenses was an $8 million decrease in the amount of net incurred losses attributable to prior years.

	Three Months Ended March 31,		
	2004	**2003**	**Change (points)**
PERSONAL MARKET combined ratio, before catastrophes and incurred attributable to prior years			
Claims and claim adjustment expense ratio	74.7%	75.5%	(0.8)
Underwriting expense ratio	20.6	20.5	0.1
Dividend ratio	-	-	-
Subtotal	95.3	96.0	(0.7)
Catastrophes	2.4	2.2	0.2
Net incurred attributable to prior years	-	0.9	(0.9)
Total combined ratio	97.7%	99.1%	(1.4)

Personal Market combined ratio for the three months ended March 31, 2004 was 97.7%, a 1.4 percentage point improvement over the same period in 2003. Approximately 0.8 percentage point of the improvement reflects the favorable impact of underwriting and pricing actions earned over the comparable period. Another 0.9 percentage point of the improvement was the result of having no net incurred losses attributable to prior years in the first quarter of 2004. Partially offsetting these favorable developments were a 0.2 percentage point increase in catastrophes losses and a 0.1 percentage point increase in the underwriting expense ratio over the comparable period. The increase in the underwriting expense ratio reflects the increase in costs associated with the integration of PruPac.

PTOI for the three months ended March 31, 2004 was $97 million, a $41 million or 73.2% increase over the same period in 2003. Consistent with the increase in profitability, Federal income taxes for the same period were $34 million, a $14 million or 70.0% increase over the same period in 2003.

Net income for the three months ended March 31, 2004 was $64 million, a $30 million or 88.2% increase over the same period in 2003. Discontinued operations reflect the sale of the Company's Canadian personal lines business to Meloche Monnex on April 1, 2004.

REGIONAL AGENCY MARKETS (RAM)

(1) Overview – RAM

RAM net written premium by market segment was as follows:

	Three Months Ended March 31,		
$ in Millions	**2004**	**2003**	**Change**
Standard Regional Companies	$635	$577	10.1%
Specialty Operations	247	202	22.3
Liberty Northwest	97	83	16.9
Total net written premium	$979	$862	13.6%

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

	Three Months Ended March 31,		
$ in Millions	**2004**	**2003**	**Change**
Commercial Lines			
Workers compensation	$358	$303	18.2%
Commercial multi-peril	234	201	16.4
Commercial automobile	128	112	14.3
General liability	37	31	19.4
Other	34	31	9.7
Subtotal	$791	$678	16.7%
Personal Lines			
Private passenger automobile	$129	$130	(0.8%)
Homeowners	56	51	9.8
Other	3	3	-
Subtotal	$188	$184	2.2%
Total net written premium	$979	$862	13.6%

Net written premium for the three months ended March 31, 2004 was $979 million, a $117 million or 13.6% increase over the same period in 2003. The increase reflects a $36 million increase from Summit Holding Southeast Inc. ("Summit"), a workers' compensation subsidiary operating primarily in Florida, and a $41 million increase in premium resulting from increased retention of the OneBeacon business. The balance of the increase reflects the favorable impact of continued rate increases and improved retention levels on renewal business across most major product lines.

Rate increases on commercial line policies, excluding Summit and Liberty Northwest, averaged 5.4% in the three months ended March 31, 2004, down from an average of rate increase of 14.4% for the same period in 2003. Concurrently, retention for commercial lines improved to 83.9% in the first quarter of 2004, from 75.1% for the comparable period in 2003. Summit experienced a 4.6% decrease in rates in the first quarter of 2004 because of a workers' compensation rate rollback instituted by the Florida Department of Insurance.

Similarly, rate increases on personal line policies, excluding Liberty Northwest, averaged 2.9% in the three months ended March 31, 2004, down from an average of rate increase of 11.9% for the same period in 2003. Retention for personal lines improved to 76.2% in the first quarter of 2004, from 66.9% for the comparable period in 2003.

(2) Results of Operations – RAM

	Three Months Ended March 31,		
$ in Millions	**2004**	**2003**	**Change**
Revenues	$908	$777	16.9%
PTOI before catastrophes and incurred attributable to prior years	$87	$53	64.2
Catastrophes:			
- Natural	(9)	(13)	(30.8)
Net incurred attributable to prior years:			
- All other[1]	-	-	-
Pre-tax operating income	78	40	95.0
Realized investment losses, net	(2)	-	-
Federal and foreign income tax expense	(27)	(14)	92.9
Net income	$49	$26	88.5%

[1] Net of earned premium attributable to prior years of $2 million for the first quarter of 2004.

Revenues for the three months ended March 31, 2004 were $908 million, a $131 million or 16.9% increase over the same period in 2003. The major components of revenues include net premiums earned, net investment income and fee and other revenues.

Net premiums earned for the three months ended March 31, 2004 were $833 million, a $132 million or 18.8% increase over the same period in 2003. Approximately $77 million of the increase was due to the reduction in ceded business to OneBeacon Insurance Group. The balance of the increase reflects new business growth from Summit and a combination of rate increases and improved retention levels on renewal business.

Net investment income for the three months ended March 31, 2004 was $64 million, a $2 million or 3.2% increase over the same period in 2003. The increase reflects an increase in invested assets, partially offset by declining investment yields.

Fee and other revenues for the three months ended March 31, 2004 and 2003 were $13 million and $14 million, respectively. The primary source of fee revenue is derived from a wholly owned subsidiary that provides insurance administrative services to workers compensation self insurance funds.

Claims, benefits and expenses for the three months ended March 31, 2004 were $832 million, a $95 million or 12.9% increase over the same period in 2003. The increase was due to approximately $61 million of incurred losses from the reduction in ceded claims, benefits and expenses to OneBeacon Insurance Group. The balance of the increase reflects growth in the business over the comparable period.

	Three Months Ended March 31,		
	2004	**2003**	**Change (points)**
RAM combined ratio, before catastrophes and incurred attributable to prior years			
Claims and claim adjustment expense ratio	64.6%	68.7%	(4.1)
Underwriting expense ratio	32.1	31.5	0.6
Dividend ratio	0.6	1.1	(0.5)
Subtotal	97.3	101.3	(4.0)
Catastrophes	1.1	1.9	(0.8)
Net incurred attributable to prior years	-	-	-
Total combined ratio	98.4%	103.2%	(4.8)

RAM's combined ratio in the three months ended March 31, 2004 was 98.4%, a 4.8 percentage point improvement over the same period in 2003. Approximately 4.6 percentage points of the improvement reflects the favorable impact of underwriting actions taken and rate increases across all major lines of business. Another 0.8 percentage point of the improvement reflects a decrease in the impact of catastrophe losses over the comparable period. Partially offsetting these favorable developments was a 0.6 percentage point increase in the underwriting expense ratio.

PTOI for the three months ended March 31, 2004 was $78 million, a $38 million or 95.0% increase over the same period in 2003. Consistent with the increase in profitability, Federal income taxes for the same period were $27 million, a $13 million or 92.9% increase over the same period in 2003.

Net income for the three months ended March 31, 2004 was $49 million, a $23 million or 88.5% increase over the same period in 2003.

INTERNATIONAL

(1) Overview – International

International net written premium by market segment was as follows:

	Three Months Ended March 31,		
$ in Millions	**2004**	**2003**	**Change**
Local Businesses – Personal and Small Commercial	$469	$330	42.1%
Liberty International Underwriters (LIU)	480	367	30.8
Total net written premium	$949	$697	36.2%

The Company's international operations provide insurance products and services through: a) Local Businesses, or wholly owned local insurance companies which sell personal and small commercial lines products; and b) Liberty International Underwriters ("LIU") which sells specialty commercial lines worldwide. International's five major lines of business are:

(1) Local Businesses (personal and small commercial insurance);
(2) LIU Reinsurance (multi-line insurance and reinsurance with an emphasis on property, treaty casualty, personal accident, aviation and reinsurance through Lloyd's Syndicates 190 and 282);
(3) LIU Third Party (casualty, excess casualty, directors and officers, errors and omissions and professional liability);
(4) LIU First Party (marine, energy, engineering, aviation and property); and
(5) LIU Other (workers compensation, auto, and residual value).

For the three months ended March 31 2004 and 2003, net written premium by major product line was as follows:

	Three Months Ended March 31,		
$ in Millions	**2004**	**2003**	**Change**
Local Businesses – Personal and Small Commercial	$469	$330	42.1%
LIU Reinsurance	290	212	36.8
LIU Third Party	81	72	12.5
LIU First Party	67	56	19.6
LIU Other	42	27	55.6
Total net written premium	$949	$697	36.2%

International net written premiums for the three months ended March 31, 2004 were $949 million, a $252 million or 36.2% increase over the same period in 2003. The change reflects a $106 million increase in net written premium related to the acquisitions made in Spain, Portugal, and Thailand, an $82 million increase in net written premiums from organic growth in Venezuela, Brazil and Spain, and a $78 million increase in net written premiums from Liberty's Lloyd's Syndicates 190 and 282. The balance of the increase results from rate activity and new business growth from all other LIU lines of business. Partially offsetting this growth was a $65 million decrease in written premiums related to the sale of the Company's Canadian health business.

LIU's net written premium continues to benefit from the increase in demand for directors and officers, errors and omissions, professional liability insurance and particularly reinsurance covers. Pricing, terms and conditions generally remain stable with some evidence of downward pressure on rates in some lines.

(2) Results of Operations – International

	Three Months Ended March 31,		
$ in Millions	**2004**	**2003**	**Change**
Revenues	$889	$617	44.1%
PTOI before catastrophes and incurred attributable to prior years	$109	$52	109.6
Catastrophes:			
- Natural	-	-	-
Net incurred attributable to prior years: [(1)]			
- All other	(38)	(22)	72.7
Pre-tax operating income	71	30	136.7
Realized investment losses, net	-	(14)	NM
Federal and foreign income tax expense	(21)	(13)	61.5
Net income	$50	$3	NM

[1] Net of earned premium attributable to prior years of $3 million and $7 million for the first quarter of 2004 and 2003, respectively.
NM = Not meaningful

Revenues for the three months ended March 31, 2004 were $889 million, a $272 million or 44.1% increase over the same period in 2003. The major components of revenues include net premiums earned, net investment income, net realized investment gains and losses and fee and other revenues.

Earned premiums for the three months ended March 31, 2004 were $804 million, a $226 million or 39.1% increase over the same period in 2003. The change reflects acquisition activity which added $98 million, growth in the Company's Lloyd's Syndicates which added $87 million, growth in Venezuela, Brazil and Spain which added $50 million and business growth and rate actions in other LIU business segments. The sale of the Company's Canadian health business resulted in $67 million decrease in earned premium year over year.

Net investment income for the three months ended March 31,2004 was $77 million, a $30 million or 63.8% increase over the same period in 2003 resulting from acquisition activity and an increase in invested assets, partially offset by lower investment yields.

Net realized investment gains for the three months ended March 31, 2004 were negligible. That compares to a $14 million realized investment loss in the first quarter of 2003. The loss in the first quarter of 2003 reflect actions taken by the Company to realign and reduce the risk of holding certain asset classes at its United Kingdom and Venezuela operations.

Fee and other revenues for the three months ended March 31, 2004 were $8 million, a $2 million or 33.3% increase over the same period in 2003. The increase in fees and other revenues in 2004 was related to an increase in premium financing activity in the personal insurance lines of business.

Claims, benefits and expenses for the three months ended March 31, 2004 were $818 million, a $217 million or 36.1% increase over the same period in 2003. Approximately $103 million of the increase was due to acquisition activity. The balance of the increase in claims, benefits and expense was primarily due to business growth, a $16 million increase in the amount of net incurred losses attributable to prior years on certain discontinued lines of business and higher reinsurance costs due to an increase in reinsurance purchases in the current period.

	Three Months Ended March 31,		
	2004	**2003**	**Change (points)**
INTERNATIONAL combined ratio, before catastrophes and incurred attributable to prior years			
Claims and claim adjustment expense ratio	66.0%	68.6%	(2.6)
Underwriting expense ratio	29.4	28.0	1.4
Dividend ratio	-	-	-
Subtotal	95.4	96.6	(1.2)
Catastrophes	-	-	-
Net incurred attributable to prior years	4.8	4.0	0.8
Total combined ratio	100.2%	100.6%	(0.4)

International's combined ratio in the three months ended, March 31, 2004 was 100.2%, a 0.4 percentage point improvement over the same period in 2003. Approximately 2.6 percentage points of the improvement was due to the favorable impact of underwriting and pricing actions. Partially offsetting these favorable developments was a 0.8 percentage point increase in net incurred losses attributable to prior years relating to certain discontinued first and third party product lines and a 1.4 percentage point increase in the underwriting expense ratio related to increased reinsurance and marketing costs.

PTOI for the three months ended March 31, 2004 was $71 million, a $41 million or 136.7% increase over the same period in 2003. Consistent with the increase in profitability, Federal and foreign income taxes for the first quarter of 2004 were $21 million, an $8 million or 61.5% increase over the same period in 2003.

Net income for the three months ended March 31, 2004 was $50 million, a $47 million increase over the same period in 2003.

CORPORATE and OTHER

(1) Overview – Corporate and Other

Corporate and other consists of the following significant items:

- Individual Life, which provides life insurance and annuities for individuals and also issues structured settlement contracts and administers separate account contracts. Individual Life is licensed and sells its products in all 50 states, the District of Columbia and Canada.

- Discontinued operations, which is composed of the Company's A&E exposure and other internal discontinued operations, primarily the run-off of the California workers compensation business of Golden Eagle.

- Interest expense on the Company's outstanding debt.

- Costs associated with certain long term compensation plans, and other corporate costs not allocated to the business units. For presentation in this Management's Discussion and Analysis, domestic property and casualty operations' investment income was allocated based upon planned ordinary investment income returns by investment type allocated to the strategic business units. For the Company's internal reporting purposes, investments are allocated as follows: fixed income equal to liabilities net of insurance assets (reinsurance, premiums receivable, etc.) and a combination of fixed income, equity and nontraditional investments supporting allocated statutory policyholders' surplus. For internal reporting purposes, the Company also allocates expected long term returns on invested assets, including realized investment gains. Under this internal reporting view, the difference between actual investment income and allocated investment income is included in Corporate/Other.

(2) Results of Operations – Corporate and Other

	Three Months Ended March 31,		
$ in Millions	**2004**	**2003**	**Change**
Revenues	$ 261	$ 123	112.2%
PTOI before catastrophes and incurred attributable to prior years	$ (34)	$ (42)	19.0
Catastrophes:			
- Natural	-	-	-
- September 11, 2001	-	-	-
Net incurred attributable to prior years:			
- Asbestos	-	(46)	NM
- All other	(52)	(5)	NM
Discount accretion[1]	(3)	-	NM
Pre-tax operating income	(89)	(93)	4.3
Realized investment gains (losses), net	59	(60)	NM
Federal and foreign income tax benefit	106	65	63.1
Discontinued operations, net of tax	1	-	NM
Net income (loss)	$ 77	$ (88)	NM

[1] The Company discounts the long-term indemnity portion of its workers compensation claims and the Company's disability claims based on permitted insurance regulations. The discount accretion on these claims flows through the underwriting results as the loss reserves accrete to nominal value. Asbestos settlements are discounted at 4.5%.
NM = Not Meaningful

Corporate and Other revenues for the three months ended March 31, 2004 were $261 million, a $138 million increase over the same period in 2003. The major components of revenues include net premiums earned, net investment income, net realized investment gains and losses and fee and other revenue.

Earned premium for the three months ended March 31, 2004 was $46 million, a $21 million decrease from the comparable period in 2003. The decrease reflects a decline in third party structured settlement business written by Liberty Life Assurance Company of Boston over the same period in 2003.

Net investment income for the three months ended March 31, 2004 was $118 million, a $29 million or 32.6% increase over the same period in 2003. The improvement in net investment income reflects an improvement in cash flow from operations and an increase in limited partnership gains of $38 million over the comparable period in 2003. Partially offsetting the increase in net investment income were lower yields on fixed maturities as compared to 2003.

Realized capital gains for the three months ended March 31, 2004 were $59 million, a $119 million increase over the same period in 2003. The improvement in net realized investment gains reflects $46 million of gains from fixed maturities and $14 million of gains from equities. This compares to $24 million and $38 million of realized losses on fixed maturities and equities, respectively, in the first quarter of 2003.

Claims, benefits and expenses for the three months ended March 31, 2004 were $291 million, a $15 million or 5.4% increase over the same period in 2003. Included in these results were $55 million and $51 million of net incurred losses attributable to prior years for the three months ended 2004 and 2003, respectively. In 2004, net incurred losses attributable to prior years were primarily related to other liability lines and workers' compensation business of Golden Eagle. In 2003, net incurred losses attributable to prior years were primarily related to asbestos.

Federal income tax benefit for the three months ended March 31, 2004 was $106 million compared to $65 million for the three months ended March 31, 2003. The Company's improved operating performance has allowed the Company to lower its tax valuation allowance, thereby reducing its effective tax rate to 0% and 13% for the first quarter of 2004 and 2003, respectively. The Corporate and Other Federal income tax benefit represents a reversal of the expense recognized by the other business segments in 2004, and substantially all of the expense recognized by the other business segments in the first quarter of 2003.

Net income for the three months ended March 31, 2004 was $77 million, a $165 million increase over the same period in 2003. The increase in net income was primarily due to a $29 million increase in net investment income, a $119 million increase in realized gains, and a $41 million increase in Federal income tax benefits.

INVESTMENTS

General

The Company's investment strategy seeks long-term returns through disciplined security selection, portfolio diversity and an integrated approach to risk management. Diversity is achieved by maintaining a broadly based portfolio composed primarily of higher quality bonds, common stocks and limited partnerships (largely venture capital and leveraged buyout funds). These core holdings are supplemented by investments in additional asset types with the objective of further enhancing the portfolio's diversification and expected returns. These additional assets include non-investment-grade debt markets, selected foreign capital markets, private capital markets and oil and gas-related activities.

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. Risk management is accomplished through asset liability management (including both interest rate risk and foreign currency risk), diversification, credit limits and careful analytic review of each investment decision.

The Company's policy and strategy are reviewed and approved by the Investment Committee of its Board of Directors. The Investment Committee meets regularly to review investment activities and tactics. The Company has an experienced investment staff that is 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 at March 31, 2004 and December 31, 2003:

$ in Millions	As of March 31, 2004		As of December 31, 2003	
Invested Assets by Type	**Market Value**	**% of Total**	**Market Value**	**% of Total**
Fixed maturities, available for sale, at fair value	$ 34,256	90.5%	$ 32,287	90.8%
Equity securities, available for sale, at fair value	1,412	3.7	1,346	3.8
Trading securities, at fair value	204	0.5	208	0.6
Other investments (see table below)	904	2.4	768	2.2
Short-term investments	1,094	2.9	940	2.6
Total Investments	$ 37,870	100.0%	$ 35,549	100.0%
Other Investments, at carrying value				
Limited partnerships (excluding Liberty Energy)	620	68.6%	564	73.4%
Liberty Energy limited partnerships	74	8.2	108	14.1
Other investments	210	23.2	96	12.5
Total Other Investments	$ 904	100.0%	$ 768	100.0%

During the first quarter of 2004, invested assets increased $2.321 billion. The increase in invested assets was primarily attributable to strong cash flow from operations of $849 million, a $774 million acquisition in Spain and $500 million of proceeds from the Company's March 23, 2004 debt offering ($227 million of proceeds were held in cash as of March 31, 2004). The acquisition in Spain increased fixed maturities, other investments and equity securities by approximately $587 million, $121 million and $66 million, respectively, in the first quarter of 2004. The increase in other investments consists primarily of structured securities that support the asset liability matching needs of a block of pension annuities. Other factors contributing to the market value increase in invested assets were the overall decline in market interest rates and a net increase of approximately $180 million in forward purchase agreements primarily on mortgage-backed securities.

The Company's investments in limited partnerships are long-term in nature and highly illiquid. The Company makes allocations to these investments because the Company believes they offer the potential for

superior long-term returns and are appropriate in the overall context of a diversified portfolio. As of March 31, 2004, the Company had unfunded energy and non-energy commitments of $126 million and $559 million, respectively.

As of March 31, 2004, no single issuer accounted for more than 1.5% of invested assets.

The following tables summarizes the Company's fixed income portfolio by security type, credit quality and maturity as of March 31, 2004 and December 31, 2003:

$ in Millions	As of March 31, 2004		As of December 31, 2003	
Fixed Maturities by Security Type	**Market Value**	**% of Total**	**Market Value**	**% of Total**
U.S. Treasury securities	$ 2,507	7.3%	$ 2,717	8.4%
Mortgage and asset-backed securities of government and corporate agencies	12,271	35.8	11,499	35.6
State and municipal[1]	1,084	3.2	1,250	3.9
Corporate and other[1]	18,394	53.7	16,821	52.1
Total fixed maturities	$ 34,256	100.0%	$ 32,287	100.0%

[1] December 31, 2003 reflects a $530 million reclassification to state and municipal from corporate and other for taxable municipal securities.

The $1.969 billion increase in fixed maturities in the first quarter of 2004 reflects the overall decline in market interest rates, the acquisition in Spain and an increase in cash available to invest. The increase in available cash reflects strong cash proceeds from operating and debt financing activity during the first quarter of 2004.

$ in Millions		As of March 31, 2004		As of December 31, 2003	
Fixed Maturities by Credit Quality S&P Rating	**NAIC Designation**	**Market Value**	**% of Total**	**Market Value**	**% of Total**
A- or higher	1	$ 28,815	84.1%	$ 26,912	83.4%
BBB- to BBB+	2	3,213	9.4	3,084	9.5
BB- to BB+	3	1,153	3.4	1,039	3.2
B- to B+	4	831	2.4	988	3.1
CCC or lower	5	237	0.7	253	0.8
In or near default	6	7	0.0	11	0.0
Total fixed maturities		$ 34,256	100.0%	$ 32,287	100.0%

The Company increased its allocation of investment grade bonds to 93.5% at March 31, 2004 from 92.9% at December 31, 2003. The Company defines investment grade bonds as a security with a rating designation from the National Association of Insurance Commissioners (NAIC) of Class 1 and Class 2. The Class 1 designation is equivalent to the Standard & Poor's rating of A- or higher. The Class 2 designation is equivalent to the Standard & Poor's BBB rating category.

The remaining 6.5% of the Company's investment in fixed maturities are rated below investment grade. The Company's investment in below investment grade securities consists of two main components: (1) a diversified portfolio of high yield bonds within the domestic insurance portfolios and (2) investments in individual emerging market sovereigns that support the Company's international insurance companies located in Argentina, Colombia and Venezuela.

$ in Millions	As of March 31, 2004		As of December 31, 2003	
Fixed Maturities by Maturity Date	**Market Value**	**% of Total**	**Market Value**	**% of Total**
1 yr or less	$ 776	2.3%	$ 877	2.7%
Over 1yr through 5yrs	5,205	15.2	4,985	15.4
Over 5yrs through 10yrs	7,876	23.0	7,086	22.0
Over ten years	8,128	23.7	7,840	24.3
Mortgage and asset backed securities	12,271	35.8	11,499	35.6
Total	$ 34,256	100.0%	$ 32,287	100.0%

During the first quarter of 2004, the Company modestly shortened the overall duration of its fixed maturity portfolio after taking into consideration changes in investment opportunities and its view of the current and prospective business and economic environment.

Net Investment Income

The following table summarizes the Company's year-to-date net investment income at March 31, 2004 and March 31, 2003:

$ in Millions	Three Months Ended March 31,	
Net Investment Income	**2004**	**2003**
Interest income	$ 470	$ 423
Dividends	21	18
Limited partnerships	28	(10)
Other investment income	1	1
Gross investment income	520	432
Investment expenses	(18)	(18)
Net investment income	$ 502	$ 414

Net investment income for the three months ended March 31, 2004 was $502 million, an $88 million or 21.3% increase over the same period in 2003. The $47 million increase in interest income reflects the increase in income-bearing fixed maturity assets during the period as a result of new business and acquisition related growth. The balance of the increase came from the Company's investments in limited partnerships. Income from limited partnerships increased $38 million to a $28 million gain in the three months ended 2004 versus a loss of $10 million in the same period in 2003. Partially offsetting the increase in invested assets was the lower interest rate environment.

Net Realized Investment Gains

The following table summarizes the Company's year-to-date net realized investment gains (losses) at March 31, 2004 and March 31, 2003:

$ in Millions	Sales & Dispositions	Impairments	Change in Trading Security Unrealized	Total
Net Realized Investment Gains				
March 31, 2004				
Fixed maturities	$ 56	$ (5)	$ -	$ 51
Common and preferred stock	26	(9)	(8)	9
Other	(3)	-	-	(3)
Total	$ 79	$ (14)	$ (8)	$ 57
March 31, 2003				
Fixed maturities	$ (21)	$ (16)	$ -	$ (37)
Common and preferred stock	(28)	(11)	-	(39)
Other	2	-	-	2
Total	$ (47)	$ (27)	$ -	$ (74)

$ in Millions	Three Months Ended March 31,	
Components of Net Realized Investment Gains	**2004**	**2003**
Fixed maturities		
Gross realized gains	$ 66	$ 33
Gross realized losses	(15)	(70)
Equities		
Gross realized gains	26	11
Gross realized losses	(17)	(50)
Other		
Gross realized gains	-	2
Gross realized losses	(3)	-
Total investments	$ 57	$ (74)

Net realized investment gains for the three months ended March 31, 2004 were $57 million, a $131 million improvement over the same period in 2003. The first quarter 2004 increase in net realized investment gains reflects $51 million and $9 million of gains from fixed maturities and equities, respectively. This compares to $37 million and $39 million of realized losses on fixed maturities and equities in the first quarter of 2003, respectively. Included in those amounts were $14 million and $27 million of impairment losses for the three months ended, March 31, 2004 and 2003, respectively.

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, 2004 totaled $37.870 billion.

Short-term debt outstanding at March 31, 2004 and December 31, 2003 was as follows:

Data in Millions	**As of March 31, 2004**	**As of December 31, 2003**
Commercial Paper	$ 80	$ 84
Revolving Credit Facilities	20	22
8.20% Surplus Notes, due 2007 (redeemed April 2004)	129	-
7.00% Prudential Notes—Series A due 2008 (redeemed April 2004).	130	-
Total short-term debt	$359	$106

Long-term debt outstanding at March 31, 2004 and December 31, 2003 was as follows:

Data in Millions	**As of March 31, 2004**	**As of December 31, 2003**
8.20% Surplus Notes, due 2007	$121	$250
6.75% Notes, due 2008	15	15
5.00% Prudential Notes due 2008	30	30
7.00% Prudential Notes—Series A due 2008	-	130
8.00% Prudential Notes—Series B due 2013	260	260
5.75% Senior Notes, due 2014	500	-
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	-
7.697% Surplus Notes, due 2097	500	500
7.10% – 8.10%, Medium Term Notes, with various maturities	88	88
Subtotal	2,167	1,676
Unamortized discount	(17)	(8)
Total long-term debt excluding current maturities	$2,150	$1,668

The Company issues commercial paper from Liberty Mutual Capital Corporation (Boston), a subsidiary of LMIC, to meet short-term operating cash flow needs. The total amount authorized for this program is $600 million and the program is backed by a $450 million 364-day revolving credit facility. The commercial paper is guaranteed by LMIC and the revolving credit facility is guaranteed by LMIC and LMFIC. To date, no funds have been borrowed under the aforementioned revolving credit facility.

The Company also has a Venezuelan subsidiary Inversora Segucar, C.A. which has entered into a revolving credit facility to provide liquidity for working capital purposes. Inversora Segucar also has short-term loans outstanding. As of March 31, 2004, total short-term loans and borrowings under the Venezuelan credit facility were approximately $20 million.

The $491 million increase in long-term debt outstanding before the unamortized discount is the result of the March 23, 2004 offering whereby LMGI issued $750 million of senior notes. Approximately $277 million of the net proceeds were used to retire existing obligations.

Holding Company Liquidity and Capital Resources

The Company conducts substantially all of its operations through its subsidiaries. This means that the Company depends on dividends, distributions, loans or other payments of funds from these entities to meet its current and future obligations. The subsidiaries are separate and distinct legal entities and have no obligation to pay interest or principal due on the Notes or to make funds available to the Company for that purpose, whether in the form of loans, dividends or other distributions. As of March 31, 2004, the Company through its downstream subsidiary LMGI had $1.010 billion of debt outstanding.

In addition, the ability of the Insurance Subsidiaries to pay dividends is restricted under applicable insurance law 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 and LMFIC, 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. Therefore, without regulatory approval, LMIC could pay a maximum of $612 million in dividends to the Company in 2004. Because LMFIC paid a dividend of approximately $283 million to LMGI on December 8, 2003, LMFIC cannot pay dividends to the Company prior to December 8, 2004, but could pay a maximum of $73 million in dividends to LMGI during the period between December 8 and December 31, 2004. Under the insurance laws of Wisconsin, the domiciliary state of 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. Therefore, EICOW could pay a maximum of $7 million in dividends to the Company in 2004 without regulatory approval. 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 the Notes. Additionally, in connection with the Company's reorganization in 2001 into a mutual holding company structure, the Company entered into Keep Well Agreements with the Massachusetts Commissioner, LMIC, LMFIC and certain other affiliates which effectively limit LMIC and LMFIC from paying any dividends to The Company when the "total adjusted capital" of the respective insurer is below 300% of the "authorized control level," as such terms are defined in the Massachusetts risk-based capital regulations as of June 13, 2001. The Keep Well Agreements will terminate automatically upon the earlier of (i) the date that is five years from the effective date of the respective reorganization (November 28, 2006 as to LMIC and March 19, 2007 as to LMFIC), or (ii) the date upon which the Company, the respective insurer or Massachusetts Holdings becomes subject to the public reporting requirements of the SEC. At December 31, 2003, LMIC and LMFIC were above 300% of the "authorized control level."

The principal service businesses of the subsidiaries of Corporate Services are claims administration and agency services for affiliated insurance entities as well as for third party customers. Management expects Corporate Services could pay dividends of over $100 million to the Company in 2004.

In summary, the estimated dividend capacity of the Company's subsidiaries for 2004 without regulatory approval is approximately $792 million.

Statutory Surplus

Statutory surplus in regards to the policyholders for the Combined operations of LMIC and its U.S. affiliates including international branches was $7.125 billion and $7.216 billion at March 31, 2004 and December 31, 2003, respectively. The change in surplus in the first quarter of 2004 reflects approximately $108 million of net income and unaffiliated unrealized capital gains, $140 million of unrealized capital losses relating to the Company's International operations and $58 million decrease in non-admitted assets relating to deferred taxes, intangibles and equipment and furniture. The $140 million of unrealized affiliated capital losses at March 31, 2004 reflects charges for non-admitted statutory goodwill relating to the Company's acquisition of Genesis, foreign exchange losses and higher deferred commission expense due to growth in the Company's International operations.

In April 2004, LMGI made a series of capital contributions, net of the surplus note tender, totaling approximately $435 million to its wholly owned insurance subsidiaries LMIC, LMFIC and EICOW using proceeds from LMGI's March 23, 2004 debt issuance. These capital contributions are not reflected in the surplus as of March 31, 2004.

On April 12, 2004, Liberty Mutual Insurance Company ("LMIC") tendered for $129 million of its 8.20% Surplus Notes due 2007. LMIC realized a loss of approximately $18 million on the tender, which will be recorded in the second quarter of 2004.

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 A&E liability reserves and recoverables on premium attributable to prior years;
- reinsurance recoverables, including bad debt provision;
- impairments to the fair value of the investment portfolio;
- the valuation of goodwill;
- deferred acquisition costs; 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 2003 tables to conform with the 2004 tables.

Unpaid Claims and Claim Adjustment Expenses

Reserves for unpaid claims and claim adjustment expenses were $31.845 billion and $30.597 billion at March 31, 2004 and December 31, 2003, respectively. The increase in unpaid claims and claim adjustment expenses between the two periods was due to growth across the Company's core business lines less the on-going settlement of claims and an increase in incurred losses attributable to prior years. For the three months ended March 31, 2004 and 2003, incurred losses attributable to prior years were $156 million and $134 million, respectively.

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, Environmental and Toxic Tort

The Company's Asbestos, Environmental and Toxic Tort reserves for unpaid claims and claim adjustment expenses decreased to $1.398 billion at March 31, 2004 from $1.441 billion at December 31, 2003. The decrease reflects a higher level of net claim settlement activity over the comparable period. Partially offsetting the decrease in unpaid claims and claim adjustment expenses was a $38 million increase in non-asbestos claims during the first quarter of 2004.

Some of the Company's loss reserves are for A&E claims and related litigation. While the estimation of asbestos claims and associated liabilities and the analysis of environmental and toxic tort 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 A&E 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 gross reinsurance recoverables, net of allowance for doubtful accounts of $12.995 billion and $12.227 billion at March 31, 2004 and December 31, 2003, respectively. The majority of the increase in the first quarter was due to an increase in gross reinsurance recoverables from Nationwide Indemnity Co. and the state mandated involuntary pools and associations.

The gross 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 Aa3 from Moody's Investors Service. The gross 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 any given pool or association is the composite of the cumulative creditworthiness of all participants.

As part of its reinsurance security oversight, the Company has established a Standing Reinsurance Credit Committee (SRC) 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 SRC is directly responsible for establishing the rating, collateral and diversification requirements governing the Company's purchase and use of reinsurance.

At March 31, 2004, approximately 93% of the Company's net reinsurance recoverable balance was with reinsurers rated A- or better from Standard & Poor's or A.M. Best. Furthermore, collateral held against outstanding gross reinsurance recoverables balances increased to $3.9 billion from $3.3 billion at March 31, 2004 and December 31, 2003, respectively.

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.

Impairment Losses on Investments

Total impairment losses on investments for the three months ended March 31, 2004 and 2003 were $14 million and $27 million, respectively. Management regularly reviews the Company's fixed maturity and equity portfolios to evaluate the necessity of recording impairment losses for other than temporary declines in the fair value of investments. A number of criteria are considered during this process, including the length of time and the extent to which the fair value has been below cost, the financial condition and near-term prospects of the issuer and the intent and ability of the Company to retain the investment for a period of time sufficient to allow for any anticipated recovery. Other-than-temporary impairment losses result in a reduction of the cost basis of the underlying investment.

Significant changes in the factors the Company considers when evaluating investments for impairment losses and/or a material change in prevailing market levels for bonds and stocks could result in a significant change in impairment losses reported in the consolidated financial statements.

Goodwill & Intangibles

Goodwill and intangible assets were $861 million and $762 million at March 31, 2004 and December 31, 2003, respectively. The majority of the increase was related to the Company's acquisition of Genesis on January 9, 2004.

Deferred Policy Acquisition Costs

Total deferred policy acquisition costs were $1.232 billion and $1.104 billion as of March 31, 2004 and December 31, 2003, 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.

Deferred Income Taxes

Deferred income taxes for the three months ended March 31, 2004 and 2003 were $709 million and $860 million, respectively. The change primarily reflects an increase in Liberty's deferred tax liability related to the significant increase in unrealized investment gains and other changes to accumulated other comprehensive income and deferred tax expense. Partially offsetting this increase was a decrease in the tax valuation allowance.

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 and employee benefits.

The Company provides for Federal income taxes based on amounts that it believes it ultimately will owe. Inherent in the provision for Federal income taxes are estimates regarding the deductibility of certain expenses and the realization of certain tax credits. In the event the ultimate deductibility of certain expenses or the realization of certain tax credits differs from estimates, the Company may be required to significantly change the provision for Federal income taxes recorded in the consolidated financial statements.

About Liberty Mutual Group Holding Company Inc.
LMG is a diversified international group of insurance companies and the eighth largest property and casualty insurer in the United States, based on 2002 net written premium (sixth largest based on 2002 direct written premium). LMG is one of only four industry competitors with a top ten market position in both personal and commercial lines in the United States based on 2002 net written premium (one of only five based on 2002 direct written premium). As of December 31, 2003, LMG had $64.4 billion in consolidated assets and $16.6 billion in annual consolidated revenue. LMG also ranks 116th on the Fortune 500 list of largest corporations in the United States for 2003.

In 2001 and 2002, LMG reorganized into a mutual holding company structure. The three principal mutual companies of the group, Liberty Mutual Insurance Company, Liberty Mutual Fire Insurance Company and Employers Insurance Company of Wausau, each became separate stock insurance companies under the ownership of Liberty Mutual Holding Company, Inc. This structure provides LMG with better capital market access and greater strategic flexibility to pursue acquisitions and alliances, while aligning its legal structure with its operating structure and preserving mutuality.

LMG offers a wide range of insurance products and services to individuals, businesses, government units and associations, including: personal automobile (its largest line of business, based on 2003 net written premium); workers compensation; homeowners; commercial multiple peril; commercial automobile; general liability; global specialty; group disability; assumed reinsurance; fire and surety. The Company also provides life and annuity products to individuals, as well as structured settlements.

The Company has five reporting segments: Commercial Markets; Personal Market; Regional Agency Markets; International; and Corporate/Other (which includes Individual Life Products). For a full description of the Company's business operations, products and distribution channels please visit the Company's investor relations website at **www.libertymutual.com/investors.**