Liberty Mutual Holding Company Inc.

Second Quarter 2004

Consolidated Financial Statements

(unaudited)

Liberty Mutual Holding Company Inc.

Consolidated Statements of Income

(dollars in millions)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	**2003**	**2004**	**2003**
Revenues				
Premiums earned	$ 4,069	$ 3,398	$ 8,036	$ 6,551
Net investment income	520	438	1,022	852
Net realized investment gains	37	148	94	74
Fee and other revenues	155	137	333	274
Total revenues	4,781	4,121	9,485	7,751
Claims, Benefits and Expenses				
Benefits, claims and claim adjustment expenses	3,065	2,756	6,184	5,287
Insurance operating costs and expenses	1,237	1,069	2,462	2,073
Dividends to policyholders	13	17	27	38
Other expenses	73	59	137	114
Total claims, benefits and expenses	4,388	3,901	8,810	7,512
Income from continuing operations before income tax expense	393	220	675	239
Federal and foreign income tax expense	-	35	-	38
Income from continuing operations before discontinued operations	393	185	675	201
Discontinued operations, net of tax	14	12	16	10
Net income	$ 407	$ 197	$ 691	$ 211

See accompanying notes to the unaudited consolidated financial statements

Liberty Mutual Holding Company Inc.

Consolidated Balance Sheets

(dollars in millions)

(Unaudited)

	June 30, 2004	December 31, 2003
Assets:		
Investments		
Fixed maturities, available for sale, at fair value (amortized cost of $32,496 and $30,873)	$ 33,033	$ 32,287
Equity securities, available for sale, at fair value (cost of $917 and $813)	1,481	1,346
Trading securities, at fair value (cost of $414 and $203)	409	208
Other investments	860	768
Short-term investments	625	940
Total investments	36,408	35,549
Cash and cash equivalents	2,200	1,999
Premium and other receivables (net of allowance of $148 and $131)	5,840	5,238
Reinsurance recoverables (net of allowance of $308 and $306)	13,290	12,227
Deferred income taxes (net of valuation allowance of $570 and $800)	1,296	860
Deferred policy acquisition costs	1,303	1,104
Goodwill and intangible assets	859	762
Prepaid reinsurance premiums	1,502	1,280
Other assets	3,595	3,183
Separate account assets	2,345	2,220
Total assets	$ 68,638	$ 64,422
Liabilities:		
Unpaid claims and claim adjustment expense and future policy benefits:		
Property and casualty	$ 32,151	$ 30,597
Life	3,642	3,018
Other policyholder funds and benefits payable	2,207	2,090
Unearned premiums	8,509	7,431
Funds held under reinsurance treaties	1,981	1,902
Short-term debt	206	106
Long-term debt	2,091	1,668
Other liabilities and accrued expenses	8,036	8,009
Separate account liabilities	2,345	2,220
Total liabilities	61,168	57,041
Policyholders' Equity:		
Unassigned equity	6,885	6,194
Accumulated other comprehensive income	585	1,187
Total policyholders' equity	7,470	7,381
Total liabilities and policyholders' equity	$ 68,638	$ 64,422

See accompanying notes to the unaudited consolidated financial statements

Liberty Mutual Holding Company Inc.

Consolidated Statements of Cash Flows

(dollars in millions)

(Unaudited)

	Six Months Ended June 30, 2004	2003
Cash flows from operating activities:		
Net income from continuing operations	$ 675	239
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	73	54
Realized investment gains	(94)	(74)
Undistributed private equity investment (gains) losses	(47)	23
Premium, other receivables, and reinsurance recoverables	(1,680)	(925)
Deferred policy acquisition costs and distribution costs	(199)	(115)
Liabilities for insurance reserves	2,947	1,960
Taxes payable, net of deferred	(51)	(12)
Other, net	(71)	148
Total adjustments	878	1,059
Net cash provided by operating activities	1,553	1,298
Cash flows from investing activities:		
Purchases of investments	(7,274)	(9,431)
Sales and maturities of investments	5,885	8,571
Property and equipment purchased, net	(156)	(150)
Other investing activities	(395)	(505)
Net cash from acquisitions and dispositions	26	94
Net cash used in investing activities	(1,914)	(1,421)
Cash flows from financing activities:		
Net activity in policyholder accounts	53	77
Debt financing, net	523	(62)
Net security lending activity and other financing actitivites	(14)	119
Net cash provided by financing activities	562	134
Net increase in cash and cash equivalents	201	11
Cash and cash equivalents, beginning of period	1,999	2,615
Cash and cash equivalents, end of period	$ 2,200	2,626

See accompanying notes to the unaudited consolidated financial statements

Liberty Mutual Holding Company Inc.

Consolidated Statements of Changes in Policyholders' Equity

(dollars in millions)

(Unaudited)

	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
Balance at beginning of the year	$ 7,381	$ 6,447
Net income	691	211
Other comprehensive (loss) income, net of taxes:		
Unrealized (losses) gains on securities	(481)	477
Less: reclassification adjustment for gains and losses included in net income	(61)	(48)
Foreign currency translation and other adjustments	(60)	105
Total other comprehensive (loss) income, net of taxes	(602)	534
Total comprehensive income	89	745
Balance at June 30	$ 7,470	$ 7,192

See accompanying notes to the unaudited consolidated financial statements

LIBERTY MUTUAL HOLDING COMPANY INC.

June 30, 2004

Notes to Consolidated Financial Statements

(dollars in millions)

Unaudited

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Liberty Mutual Holding Company Inc. and its subsidiaries (collectively "LMHC" or the "Company"). Certain reclassifications have been made to the 2003 consolidated financial statements to conform to the 2004 presentation. All material intercompany transactions and balances have been eliminated.

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States ("GAAP"). The preparation of financial statements in conformity with GAAP requires management 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 (1) unpaid losses and loss expense reserves, including asbestos reserves, (2) reinsurance recoverables, including the bad debt allowance, (3) impairments to the fair value of the investment portfolio, (4) deferred acquisition costs, and (5) the valuation of goodwill. While management believes that the amounts included in the consolidated financial statements reflect their best estimates and assumptions, these amounts could ultimately be materially different from the amounts currently provided for in the consolidated financial statements.

Adoption of New Accounting Standards

In July 2003, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants ("AcSEC") issued Statement of Position 03-1, "*Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts*" ("SOP 03-1"). The purpose of the SOP is to provide a conceptual framework that will facilitate the determination of the proper accounting for various life and annuity products. The most significant requirements of the SOP are: (i) the reporting and measurement of separate account assets and liabilities as general account assets and liabilities when specified criteria are not met, (ii) the capitalization of sales inducements that meet specified criteria and amortizing such amounts over the life of the contracts using the same methodology as used for amortizing deferred acquisition costs, but immediately expensing sales inducements accrued or credited if such criteria are not met, and (iii) the classification and valuation of certain nontraditional long-duration contract liabilities. SOP 03-1 was effective on January 1, 2004. The statement did not have a material impact on the Company's results of operations, financial condition or liquidity.

In March 2004, the Emerging Issues Task Force ("EITF") reached a final consensus on Issue 03-1, "*The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*" ("EITF 03-1"). EITF 03-1 adopts a three-step impairment model for securities within its scope. The three-step model must be applied on a security-by-security basis as follows:

Step 1: Determine whether an investment is impaired. An investment is impaired if the fair value of the investment is less than its cost basis.

Step 2: Evaluate whether an impairment is other-than-temporary. For debt securities that cannot be contractually prepaid or otherwise settled in such a way that the investor would not recover substantially all of its cost, an impairment is deemed other-than-temporary if the investor does not have the ability and intent to hold the investment until a forecasted market price recovery or it is probable that the investor will be unable to collect all amounts due according to the contractual terms of the debt security.

Step 3: If the impairment is other-than-temporary, recognize an impairment loss equal to the difference between the investment's cost basis and its fair value.

Subsequent to an other-than-temporary impairment loss, a debt security should be accounted for in accordance with Statement of Position ("SOP") 03-3, "*Accounting for Loans and Certain Debt Securities Acquired in a Transfer*." EITF 03-1 does not replace the impairment guidance for investments accounted for under EITF Issue 99-20, "*Recognition of Interest Income and Impairments on Purchased and Retained Beneficial Interests in Securitized Financial Assets*" ("EITF 99-20"), however, investors will be required to determine if a security is other-than-temporarily impaired under EITF 03-1 if the security is determined not to be impaired under EITF 99-20. The Company adopted EITF 03-1 in 2004, which did not have a material impact on the Company's results of operation, financial condition or liquidity.

In March 2004, the EITF reached a final consensus on Issue 03-16, "*Accounting for Investments in Limited Liability Companies*" ("EITF 03-16"). EITF 03-16 will require investors in limited liability corporations that have specific ownership accounts to follow the equity method accounting for investments that are more than minor (e.g. greater than 3% ownership interest) as prescribed in SOP 78-9, "*Accounting for Investments in Real Estate Ventures*" and EITF Topic No. D-46, "*Accounting for Limited Partnership Investments*." Investors that do not have specific ownership accounts or minor ownership interests should follow the significant influence model prescribed in APB Opinion No. 18, "*Accounting for Certain Investments in Debt and Equity Securities*," for corporate investments. EITF 03-16 excludes securities that are required to be accounted for as debt securities based on the guidance in paragraph 14 of SFAS No. 140, "*Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*," and EITF 99-20. EITF 03-16 is effective for quarters beginning after June 15, 2004 and should be applied as a change in accounting principle. The adoption of this standard is not expected to have a material impact on the Company's results of operation, financial condition or liquidity.

Significant Accounting Policies

See Note 1 of the Notes to Consolidated Financial Statements included in the Company's 2003 Annual Report for a description of accounting policies.

(dollars in millions)

Accumulated Other Comprehensive Income
Other comprehensive income consists of foreign currency translation adjustments, minimum pension liability and unrealized gains and losses on certain investments in debt and equity securities.

The components of accumulated other comprehensive income, net of related deferred acquisition costs and taxes, are as follows:

	June 30, 2004	December 31, 2003
Unrealized gains on securities	$639	$1,181
Foreign currency translation and other adjustments	(54)	6
Accumulated other comprehensive income	$585	$1,187

(2) DIVESTITURES AND DISCONTINUED OPERATIONS

Discontinued Operations
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 $300 in direct written premiums to Meloche Monnex. The operations were a net gain of $14 and a net gain of $12 for the three months ended June 30, 2004 and 2003, respectively. The operations were a net gain of $16 and $10 for the six months ended June 30, 2004 and 2003, respectively.

(3) ACQUISITIONS AND GOODWILL

Effective January 9, 2004, the Company acquired MetLife's Spanish operations, including its non-life subsidiary, Genesis Seguros Generales, S.A., and its life subsidiary, Seguros Genesis, S.A. The transaction resulted in goodwill of $59.

(4) DEBT OUSTANDING

Debt outstanding at June 30, 2004 and December 31, 2003 includes the following:

Short-term debt:	2004	2003
Commercial Paper	$126	$84
Revolving Credit Facilities	19	22
Medium Term Notes, maturating within one year	61	-
Total short-term debt	$206	$106

(dollars in millions)

Long-term debt:	**2004**	**2003**
8.20% Surplus Notes, due 2007	$121	$250
6.75% Notes, due 2008	15	15
5.00% Notes due 2008	30	30
7.00% Notes—Series A due 2008	-	130
8.00% 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	27	88
Subtotal	2,106	1,676
Unamortized discount	(15)	(8)
Total long-term debt excluding current maturities	$2,091	$1,668

Short-term Debt
The Company issues commercial paper to meet short-term operating needs. The total facility was $600 at June 30, 2004 and December 31, 2003 and is backed up by a $450 line of credit facility. Commercial paper issued and outstanding at June 30, 2004 and December 31, 2003 was $126 and $84, respectively. Interest rates ranged from 1.08% to 1.65% for the first six months ended June 30, 2004 and 1.12% to 1.55% in 2003.

On April 12, 2004, Liberty Mutual Insurance Company retired $129 of its 8.20% Surplus Notes due 2007 and realized a loss of approximately $18.

On April 16, 2004, LMGI repaid approximately $130 of the five-year notes at par that the company had issued to Prudential Financial Inc. ("Prudential") in connection with the October 2003 acquisition of Prudential's personal lines property-casualty operations.

Long-term Debt
Payments of interest and principal of the surplus notes are expressly subordinate to all policyholder claims and other obligations of LMIC. Accordingly, interest and principal payments are contingent upon prior approval of the Commissioner of Insurance of the Commonwealth of Massachusetts.

On March 23, 2004, the Company issued $500 of 5.75% unsecured senior notes due 2014 and $250 of 7.00% unsecured senior notes due 2034. Interest on the notes is paid semi-annually on March 15 and September 15.

(dollars in millions)

(5) BENEFIT PLANS

The components of net periodic cost for the Company's pension and postretirement plans for the three months and six months ended June 30, 2004 and 2003, are as follows:

	Pension Benefits		SIRP Benefits		Postretirement Benefits	
Three months ended June 30,	2004	2003	2004	2003	2004	2003
Components of net periodic benefit costs:						
Service cost	$ 30	$ 23	$ 2	$ 1	$ 5	$ 4
Interest cost	40	35	3	2	8	7
Expected return on plan assets	(52)	(51)	-	-	-	-
(Gain)/loss recognized due to settlement	-	-	2	-	(1)	-
Amortization of unrecognized:						
Net (gain)/loss	-	(1)	1	1	-	-
Prior service cost	1	1	1	1	(1)	(1)
Net transition (assets)/obligations	(1)	(1)	-	-	2	2
Net periodic benefit costs	$ 18	$ 6	$ 9	$ 5	$ 13	$ 12

	Pension Benefits		SIRP Benefits		Postretirement Benefits	
Six months ended June 30,	2004	2003	2004	2003	2004	2003
Components of net periodic benefit costs:						
Service cost	$ 61	$ 47	$ 4	$ 3	$ 9	$ 7
Interest cost	80	70	6	5	16	15
Expected return on plan assets	(103)	(102)	-	-	(1)	(1)
Loss recognized due to settlement	-	-	14	-	(1)	-
Amortization of unrecognized:						
Net (gain)/loss	-	(2)	3	1	-	-
Prior service cost	2	2	1	1	(2)	(2)
Net transition (assets)/obligations	(3)	(3)	-	-	5	5
Net periodic benefit costs	$ 37	$ 12	$ 28	$ 10	$ 26	$ 24

On April 1, 2004, the Company made a $100 voluntary contribution into its U.S. qualified defined benefit pension plan.

(6) COMMITMENTS AND CONTINGENT LIABILITIES

Various lawsuits against the Company have arisen in the normal course of business. Contingent liabilities arising from litigation, income taxes and other matters are not considered material in relation to the financial position of the Company.

The Company has been in various insurance coverage disputes with Armstrong World Industries ("Armstrong") for over twenty years relating to asbestos liabilities and insurance covering the period 1973 to 1981. In 2003, the Company prevailed in a favorable arbitration ruling before an appellate panel regarding Armstrong's insurance coverage. Armstrong filed a Chapter 11 Bankruptcy petition in the United States Bankruptcy Court for the District of Delaware in December 2000 and is still operating under the protection of Chapter 11. A declaratory judgment action, filed by Armstrong in 2002, is pending in the United States District Court for the Eastern District of Pennsylvania seeking coverage for asbestos claims under insurance policies issued to Armstrong during the period of 1973 to 1981, including, but not limited to, damages and a declaration regarding the availability, applicability and scope of alleged non-product coverage not subject to the aggregate limits of the policies. Armstrong contends that a significant portion of its asbestos liability arises from operations that would entitle Armstrong to insurance coverage under the disputed policies without regard to the aggregate limit of liability. The Pennsylvania action is currently in the initial pleading stages and inactive by agreement of the parties. Armstrong has also recently filed, in the same Pennsylvania District Court, a Motion to Vacate the appellate arbitration award that was favorable to the Company. The Company is vigorously defending its position and the Motion to Vacate has been fully briefed. Management believes that the ultimate liability, if any, to Armstrong will not be resolved until at least 2005 and likely may not be known for several years. In the opinion of management, the outcome of these pending matters is difficult to predict and in the event of an adverse outcome, could have a material adverse effect on the Company's results of operations, financial condition and liquidity.

At June 30, 2004, the Company had unfunded capital commitments to private equity investments of $675.

At June 30, 2004, the Company had commitments to purchase various mortgage-backed securities settling in 2004, at a cost of $135 with a fair value of $136 and are included as fixed maturities in the consolidated balance sheets.