Liberty Mutual Holding Company Inc.

Third Quarter 2004

Consolidated Financial Statements

(unaudited)

Liberty Mutual Holding Company Inc.

Consolidated Statements of Income

(dollars in millions)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	**2003**	**2004**	**2003**
Revenues				
Premiums earned	$ 4,107	$ 3,587	$ 12,143	$ 10,138
Net investment income	552	436	1,574	1,288
Net realized investment gains	75	212	169	286
Fee and other revenues	148	138	481	412
Total revenues	4,882	4,373	14,367	12,124
Claims, Benefits and Expenses				
Benefits, claims and claim adjustment expenses	3,571	2,894	9,755	8,181
Insurance operating costs and expenses	1,222	1,223	3,684	3,296
Dividends to policyholders	27	9	54	47
Other expenses	70	59	207	173
Total claims, benefits and expenses	4,890	4,185	13,700	11,697
Income (loss) from continuing operations before income tax expense	(8)	188	667	427
Federal and foreign income tax expense	-	(13)	-	25
Income (loss) from continuing operations before discontinued operations	(8)	201	667	402
Discontinued operations, net of tax	(3)	4	13	14
Net (loss) income	$ (11)	$ 205	$ 680	$ 416

See accompanying notes to the unaudited consolidated financial statements

Liberty Mutual Holding Company Inc.

Consolidated Balance Sheets

(dollars in millions)

(Unaudited)

	September 30, 2004	December 31, 2003
Assets:		
Investments		
Fixed maturities, available for sale, at fair value (amortized cost of $33,194 and $30,873)	$ 34,526	$ 32,287
Equity securities, available for sale, at fair value (cost of $1,048 and $813)	1,599	1,346
Trading securities, at fair value (cost of $441 and $203)	438	208
Other investments	955	768
Short-term investments	612	940
Total investments	38,130	35,549
Cash and cash equivalents	3,062	1,999
Premium and other receivables (net of allowance of $146 and $131)	5,754	5,238
Reinsurance recoverables (net of allowance of $319 and $306)	13,695	12,227
Deferred income taxes (net of valuation allowance of $580 and $800)	959	860
Deferred policy acquisition costs	1,339	1,104
Goodwill and intangible assets	872	762
Prepaid reinsurance premiums	1,467	1,280
Other assets	3,799	3,183
Separate account assets	2,213	2,220
Total assets	$ 71,290	$ 64,422
Liabilities:		
Unpaid claims and claim adjustment expense and future policy benefits:		
Property and casualty	$ 33,446	$ 30,597
Life	3,848	3,018
Other policyholder funds and benefits payable	2,245	2,090
Unearned premiums	8,628	7,431
Funds held under reinsurance treaties	1,937	1,902
Short-term debt	193	106
Long-term debt	2,090	1,668
Other liabilities and accrued expenses	8,704	8,009
Separate account liabilities	2,213	2,220
Total liabilities	63,304	57,041
Policyholders' Equity:		
Unassigned equity	6,874	6,194
Accumulated other comprehensive income	1,112	1,187
Total policyholders' equity	7,986	7,381
Total liabilities and policyholders' equity	$ 71,290	$ 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)

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Cash flows from operating activities:		
Net income from continuing operations	$ 667	427
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	108	83
Realized investment gains	(169)	(286)
Undistributed private equity investment (gains) losses	(125)	27
Premium, other receivables, and reinsurance recoverables	(2,001)	(1,281)
Deferred policy acquisition costs and distribution costs	(234)	(145)
Liabilities for insurance reserves	4,521	2,925
Taxes payable, net of deferred	(181)	33
Other, net	(70)	156
Total adjustments	1,849	1,512
Net cash provided by operating activities	2,516	1,939
Cash flows from investing activities:		
Purchases of investments	(17,210)	(18,163)
Sales and maturities of investments	15,431	16,285
Property and equipment purchased, net	(135)	(187)
Other investing activities	(48)	402
Net cash from acquisitions and dispositions	(69)	16
Net cash used in investing activities	(2,031)	(1,647)
Cash flows from financing activities:		
Net activity in policyholder accounts	60	107
Debt financing, net	509	(57)
Net security lending activity and other financing actitivites	9	43
Net cash provided by financing activities	578	93
Net increase in cash and cash equivalents	1,063	385
Cash and cash equivalents, beginning of period	1,999	2,615
Cash and cash equivalents, end of period	$ 3,062	3,000

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)

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Balance at beginning of the year	$ 7,381	$ 6,447
Net income	680	416
Other comprehensive (loss) income, net of taxes:		
Unrealized (losses) gains on securities	51	216
Less: reclassification adjustment for gains and losses included in net income	(110)	(186)
Foreign currency translation and other adjustments	(16)	114
Total other comprehensive (loss) income, net of taxes	(75)	144
Total comprehensive income	605	560
Balance at September 30	$ 7,986	$ 7,007

See accompanying notes to the unaudited consolidated financial statements

LIBERTY MUTUAL HOLDING COMPANY INC.

September 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.

In September 2004, the Financial Accounting Standards Board ("FASB") issued Staff Position EITF 03-1-1, *"Effective Date of Paragraphs 10-20 of EITF Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments"* ("FSP EITF 03-1-1"). FSP EITF 03-1-1 delays the implementation of steps 2 and 3 of the three-step impairment model adopted by EITF 03-1 and the accounting for debt securities subsequent to an other-than-temporary impairment. Companies are still required to determine whether an investment is impaired and make appropriate disclosures under EITF 03-1.

EITF 03-1 does not replace the impairment guidance for investments accounted for under EITF Issue 99-20, *"Recognition of Interest Income and Impairment of Purchased and Retained Beneficial Interest in Securitized Financial Assets"* ("EITF 99-20"). Except for paragraphs 10-20 of ETF 03-1, the Company adopted EITF 03-1 and FSP EITF 03-1-1 in 2004. EITF 03-1 and FSP EITF 03-1-1 did not have a material impact to the Company's results of operations, 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 was effective for the Company on July 1, 2004 and did not have a material impact on the Company's results of operations, financial condition or liquidity.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") was signed into law. The Act provides a 28% non-taxable subsidy to sponsors of defined benefit postretirement health plans that are actuarially equivalent to Medicare Part D. In January 2004, the FASB issued Staff Position 106-1, *"Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("The Act")"* ("FSP 106-1"). As provided under FSP 106-1, the Company elected to defer accounting for the effects of the Act until authoritative guidance on the accounting for the federal subsidy was issued or until a significant event occurred that ordinarily would call for us to remeasure our plans' assets and obligations.

(dollars in millions)

In May 2004, the FASB issued FSP 106-2, *"Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003"* ("FSP 106-2"). FSP 106-2 provides guidance on accounting for the effects of the Act for employers that sponsor postretirement health care plans that provide drug benefits. The Company adopted FSP 106-2 in the third quarter of 2004 and, as permitted, elected retroactive application to December 31, 2003 (the measurement date following enactment of the Act). The Company and its actuarial advisors have determined that the Company's postretirement medical plans for certain existing retirees and their dependents provide a benefit that is at least actuarially equivalent to Medicare Part D under the Act, and, accordingly, the Company is entitled to the subsidy. Accounting for the effect of the federal subsidy reduces the Company's accumulated postretirement benefit obligation ("APBO") by $24 at December 31, 2003. As a result of adopting FSP 106-2 net periodic postretirement benefit costs for the quarter ended September 30, 2004 includes a reduction in benefit costs of $2.

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.

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:

	September 30, 2004	**December 31, 2003**
Unrealized gains on securities	$1,122	$1,181
Foreign currency translation and other adjustments	(10)	6
Accumulated other comprehensive income	$1,112	$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 loss of $3 and a net gain of $5 for

(dollars in millions)

the three months ended September 30, 2004 and 2003, respectively. The operations were a net gain of $13 and $15 for the nine months ended September 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 $63.

Effective August 19, 2004, the Company acquired the insurance operations of AGF Allianz Chile S.A., resulting in goodwill of $12.

(4) DEBT OUSTANDING

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

Short-term debt:	**2004**	**2003**
Commercial Paper	$111	$84
Revolving Credit Facilities	21	22
Medium Term Notes, maturating within one year	61	-
Total short-term debt	$ 193	$106

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	(16)	(8)
Total long-term debt excluding current maturities	$ 2,090	$1,668

Short-term Debt

The Company issues commercial paper to meet short-term operating needs. The total facility was $600 at September 30, 2004 and December 31, 2003 and is backed up by a $450 line of credit facility. Commercial paper issued and outstanding at September 30, 2004 and December 31, 2003 was $111 and $84, respectively. Interest rates ranged from 1.08% to 1.87% and 1.03% to 1.55% for the first nine months ended September 30, 2004 and 2003, respectively.

(dollars in millions)

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

On April 16, 2004, Liberty Mutual Group inc. ("LMGI") repaid approximately $130 of the 7.00% Series A Notes due 2008 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.

(5) BENEFIT PLANS

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

	Pension Benefits		SIRP Benefits		Postretirement Benefits	
Three months ended September 30,	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**
Components of net periodic benefit costs:						
Service cost	$32	$26	$1	$1	$4	$4
Interest cost	40	37	3	1	8	8
Expected return on plan assets	(51)	(49)	-	-	-	-
(Gain)/loss recognized due to settlement	-	-	2	-	-	-
Amortization of unrecognized:						
Net (gain)/loss	-	2	1	1	-	-
Prior service cost	1	1	1	1	(1)	(1)
Net transition (assets)/obligations	(2)	(1)	-	-	2	2
Net periodic benefit costs	$20	$16	$8	$4	$13	$13

(dollars in millions)

	Pension Benefits		SIRP Benefits		Postretirement Benefits	
Nine months ended September 30,	2004	2003	2004	2003	2004	2003
Components of net periodic benefit costs:						
Service cost	$93	$73	$6	$4	$13	$11
Interest cost	120	107	9	8	23	22
Expected return on plan assets	(155)	(152)	-	-	(1)	(1)
(Gain)/loss recognized due to settlement	-	-	15	-	(1)	-
Amortization of unrecognized:						
Net (gain)/loss	-	-	4	2	-	-
Prior service cost	4	4	2	2	(2)	(2)
Net transition (assets)/obligations	(5)	(4)	-	-	7	7
Net periodic benefit costs	$57	$28	$36	$16	$39	$37

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 through 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 September 30, 2004, the Company had unfunded capital commitments to private equity investments of $651.

At September 30, 2004, the Company had commitments to purchase various mortgage-backed securities settling in 2004, at a cost of $382 with a fair value of $383 and are included as fixed maturities in the consolidated balance sheets.