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

Quarter Ended September 30, 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 and nine months ended September 30, 2004 and 2003. This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the Company's Annual Report, Third Quarter 2004 Consolidated Financial Statements (unaudited), Third Quarter 2004 Financial Supplement (unaudited), and First and Second Quarter 2004 MD&As located on the Investor Relations web site at www.libertymutual.com/investors. 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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Cautionary Statement Regarding 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 results or other consequences from legal proceedings or regulatory investigations or reforms, including governmental actions regarding the compensation of brokers and agents and related disclosures; 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.

Three Months Ended September 30, 2004 - Consolidated Results of Operations

- Revenues for the three months ended September 30, 2004 were $4.882 billion, a $509 million or 11.6% increase over the same period in 2003.

- Net loss for the three months ended September 30, 2004 was $11 million, a $216 million decline from the same period in 2003. Results in the quarter include after-tax catastrophe losses[1] of $387 million, a $330 million increase over the same period in 2003.

- Cash flow from operations for the three months ended September 30, 2004 was $963 million, a $322 million or 50.2% increase over the same period in 2003.

- The combined ratio before catastrophes[1] and net incurred attributable to prior years[2] for the three months ended September 30, 2004 was 93.2%, a 3.0 percentage point reduction from the same period in 2003. Including the impact of catastrophes and net incurred attributable to prior years, the combined ratio was 111.5%, a 6.6 percentage point increase over the same period in 2003.

- Net incurred losses attributable to prior years were $103 million and $187 million for the three months ended September 30, 2004 and 2003, respectively.

Nine Months Ended September 30, 2004 - Consolidated Results of Operations

- Revenues for the nine months ended September 30, 2004 were $14.367 billion, a $2.243 billion or 18.5% increase over the same period in 2003.

- Net income for the nine months ended September 30, 2004 was $680 million, a $264 million or 63.5% increase over the same period in 2003. Year-to-date results include after-tax catastrophe losses[1] of $443 million, a $314 million increase over the same period in 2003.

- Cash flow from operations for the nine months ended September 30, 2004 was $2.516 billion, a $577 million or 29.8% increase over the same period in 2003.

- The combined ratio before catastrophes[1] and net incurred attributable to prior years[2] for the nine months ended September 30, 2004 was 96.1%, a 2.5 percentage point improvement over the same period in 2003. Including the impact of catastrophes and net incurred attributable to prior years, the combined ratio was 104.5%, a 0.8 percentage point improvement over the same period in 2003.

- Net incurred losses attributable to prior years were $241 million and $397 million for the nine months ended September 30, 2004 and 2003, respectively.

[1] Catastrophes, net of reinstatement premium, exclude losses related to the Company's reinsurance assumed lines (assumed voluntary reinsurance and reinsurance assumed through Lloyd's Syndicates 282 and 190), except for losses related to Hurricanes Charley, Frances, Ivan and Jeanne ("four hurricanes") and September 11, 2001, which had a material impact on the Company's results. See related discussions in the Consolidated Results of Operations, Commercial Markets, and International sections of the MD&A for the computation of catastrophe losses in excess of the Company's reasonable assumption of expected catastrophe losses. After-tax amounts are presented net of a 35% expected tax rate.

[2] Net incurred losses attributable to prior years is defined as incurred losses attributable to prior years net of earned premium attributable to prior years and excluding discount accretion.

Financial Condition as of September 30, 2004

- Total assets increased to $71.290 billion as of September 30, 2004, a $6.868 billion or 10.7% increase from December 31, 2003.

- Policyholders' equity as of September 30, 2004 was $7.986 billion, a $605 million or 8.2% increase from December 31, 2003.

- Net unrealized gains on fixed maturities as of September 30, 2004 were $1.332 billion, an $82 million or 5.8% decline from December 31, 2003.

Other 2004 3rd Quarter Highlights

Rating Actions

- On August 13, 2004, Moody's Investors Service placed Liberty Mutual Insurance Company ("LMIC") and its related property/casualty entities on review for possible downgrade. The Company intends to meet with the management of Moody's to address this matter in the fourth quarter.

Acquisitions

- On August 19, 2004, the Company acquired the Chilean operations of AGF Allianz Chile S.A. The new company, to be renamed Liberty Seguros, will offer a full range of property and casualty products for commercial and personal customers. The purchase price was € 39 million ($47 million U.S.).

Four Hurricanes 2004

- Aggregate after-tax catastrophe losses related to the four hurricanes were approximately $466 million in the quarter and year-to-date. Losses in the third quarter are reported net of $40 million of after-tax exposure based reserves recorded in the first two quarters of 2004. Hurricane losses related to assumed reinsurance in the third quarter and year-to-date are reported net of the Company's after-tax reasonable assumption of expected catastrophe activity (defined as "net catastrophe reinsurance premium earned") of $60 million and $107 million, respectively. All catastrophe losses include reinstatement premium.

Events Subsequent to September 30, 2004

Broker Compensation Investigation

- As previously disclosed, the Company has received subpoenas from the New York Attorney General as part of an ongoing, industry-wide investigation of broker sales practices. Since that announcement, the Company has received additional subpoenas or other requests for information from governmental authorities in Connecticut, Illinois, Massachusetts, North Carolina, Ohio and Canada regarding the industry-wide investigation into broker compensation and insurance quoting issues. To date, the Company has not been named or referenced in any lawsuits stemming from these investigations. It has been widely reported in the media, however, that other governmental and regulatory authorities are conducting similar inquiries, and, as the sixth largest property and casualty insurer in the United States, it would not be surprising for the Company to receive additional requests. The Company has cooperated with all regulatory authorities in connection with the investigation and will continue to do so.

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 changes in accounting principles. 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, except that limited partnership results recognized on the equity method are not included in internal PTOI. 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 and 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. "Premium earned," 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 September 30,			Nine Months Ended September 30,		
$ in Millions	**2004**	**2003**	**Change**	**2004**	**2003**	**Change**
Private Passenger Automobile	$1,529	$1,092	40.0%	$4,350	$3,174	37.1%
Workers' Compensation	824	720	14.4	2,813	2,530	11.2
Homeowners	412	274	50.4	1,107	735	50.6
Commercial Multiple Peril	293	251	16.7	832	728	14.3
Commercial Automobile	262	242	8.3	794	699	13.6
LIU[1] – Reinsurance	153	194	(21.1)	661	513	28.8
General Liability	121	155	(21.9)	623	539	15.6
International Local Businesses [2]	167	150	11.3	570	571	(0.2)
LIU[1] – Third Party	88	84	4.8	261	250	4.4
Group Disability	62	66	(6.1)	186	195	(4.6)
LIU[1] – First Party	32	53	(39.6)	162	177	(8.5)
Fire	44	43	2.3	139	107	29.9
Surety	39	33	18.2	105	78	34.6
Assumed Reinsurance	35	58	(39.7)	101	143	(29.4)
Other	162	170	(4.7)	508	503	1.0
Total net written premium	$4,223	$3,585	17.8%	$13,212	$10,942	20.7%

1 Liberty International Underwriters (LIU)
2 Small commercial and other personal; excludes private passenger automobile.

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2004**	**2003**	**Change**	**2004**	**2003**	**Change**
Personal Market	$1,456	$999	45.7%	$4,128	$2,896	42.5%
Commercial Markets	948	993	(4.5)	3,548	3,336	6.4
Regional Agency Markets	951	780	21.9	2,954	2,535	16.5
International	754	684	10.2	2,540	2,057	23.5
Corporate and Other	114	129	(11.6)	42	118	(64.4)
Total net written premium	$4,223	$3,585	17.8%	$13,212	$10,942	20.7%

Net written premium for the three and nine months ended September 30, 2004 was $4.223 billion and $13.212 billion, respectively, representing a $638 million and $2.270 billion increase over the same periods in 2003. The increase in the quarter and year-to-date reflects acquisition activity, net of dispositions, of $450 million and $1.214 billion, respectively. The balance of the increase in both periods reflects new business growth, rate increases and a general improvement in 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 web site at www.libertymutual.com/investors.

(2) Results of Operations – Consolidated

$ in Millions	Three Months Ended September 30, 2004	2003	Change	Nine Months Ended September 30, 2004	2003	Change
Revenues	$4,882	$4,373	11.6%	$14,367	$12,124	18.5%
PTOI before catastrophes, incurred attributable to prior years, and allowance for uncollectible reinsurance on asbestos	$639	$426	50.0%	$1,492	$943	58.2%
Allowance for uncollectible reinsurance on asbestos	-	(158)	NM	-	(158)	NM
PTOI before catastrophes and incurred attributable to prior years	639	268	138.4	1,492	785	90.1
Catastrophes[1, 2]:						
- Four hurricanes 2004	(563)	-	NM	(553)	-	NM
- September 11, 2001	-	2	NM	-	2	NM
- All other	(32)	(90)	(64.4)	(128)	(201)	(36.3)
Net incurred attributable to prior years:						
- Asbestos	-	(104)	NM	(4)	(173)	(97.7)
- All other[3]	(103)	(83)	24.1	(237)	(224)	5.8
Discount accretion[4]	(24)	(17)	41.2	(72)	(48)	50.0
Pre-tax operating (loss) income	(83)	(24)	NM	498	141	NM
Realized investment gains, net	75	212	(64.6)	169	286	(40.9)
Federal and foreign income tax benefit (expense)	-	13	NM	-	(25)	NM
Discontinued operations, net of tax	(3)	4	NM	13	14	(7.1)
Net (loss) income	($11)	$205	NM	$680	$416	63.5%

1 The Company does not typically identify catastrophe losses from assumed reinsurance lines (assumed voluntary reinsurance and reinsurance assumed through Lloyd's Syndicates 282 & 190) in the tables above given the expected volatility associated with property-reinsurance coverage. However, given the significant impact that the four hurricanes and the events of September 11, 2001 had on the Company's results, these losses have been separately identified in the tables above. The four hurricanes' losses in the third quarter are reported net of the $62 million of exposure based reserves recorded in the first two quarters of 2004 and net of the Company's reasonable assumption of expected catastrophe activity (defined as "net catastrophe reinsurance premium earned"). Similarly, the four hurricanes' losses for the nine months ended September 30, 2004 include amounts in excess of the Company's reasonable assumption of expected property catastrophe losses. Catastrophe losses also include reinstatement premium.

2 Assumed catastrophe losses related to the four hurricanes are reported net of net catastrophe reinsurance premium earned of $92 million and $164 million for the three and nine months ended September 30, 2004, respectively.

3 Net of earned premium attributable to prior years of ($3) million and $55 million for the three and nine months ended September 30, 2004, respectively; $35 million and $129 million for the comparable periods of 2003.

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

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

Revenues for the three and nine months ended September 30, 2004 were $4.882 billion and $14.367 billion, respectively, representing a $509 million and $2.243 billion increase over the same periods in 2003. The major components of revenues include net premium earned, net investment income, net realized investment gains/losses, and fee and other revenues.

Net premium earned for the three and nine months ended September 30, 2004 was $4.107 billion and $12.143 billion, respectively, representing a $520 million and $2.005 billion increase over the same periods in 2003. The increase in the quarter and year-to-date reflects acquisition activity, net of dispositions, of $361 million and $1.062 billion, respectively. The balance of the increase in both periods reflects new business growth, rate increases and a general improvement in retention levels on renewal business across many of the Company's major product lines.

Net investment income for the three and nine months ended September 30, 2004 was $552 million and $1.574 billion, respectively, representing a $116 million and $286 million increase over the same periods in 2003. Income from limited partnerships increased $81 million and $151 million in the quarter and year-to-date, respectively. The balance of the increase is due an increase in average invested assets resulting from acquisition activity and improved cash flow from operations, offset by lower investment yields.

Net realized investment gains for the three months and nine months ended September 30, 2004 were $75 million and $169 million, respectively, representing a $137 million and $117 million decrease over the same periods in 2003. Included in the third quarter 2003 amounts were $218 million of gains primarily related to a restructuring of the fixed maturity portfolio. The Company realized $68 million and $169 million of gains from the sale of fixed maturities and equities in the quarter and year-to-date, respectively, compared to $213 million and $286 million in the same periods a year ago.

Fee and other revenues for the three and nine months ended September 30, 2004 were $148 million and $481 million, respectively, representing a $10 million and $69 million increase over the same periods in 2003. The increase in both periods was primarily attributable to higher fee revenues from the Company's involuntary market servicing carrier operations.

Claims, benefits and expenses for the three and nine months ended September 30, 2004 were $4.890 billion and $13.700 billion, respectively, representing a $705 million and $2.003 billion increase over the same periods in 2003. The increase in both periods reflects acquisition activity, higher catastrophe losses, and the non-renewal of certain workers' compensation reinsurance treaties in 2003, partially offset by improved underwriting activity and a decrease in incurred losses attributable to prior years[1] primarily related to asbestos.

Acquisition activity, net of dispositions and excluding catastrophe losses related to PruPac[2], added $381 million and $1.074 billion to claims, benefits and expenses in the three and nine months ended September 30, 2004, respectively. Catastrophe losses increased $599 million and $646 million, in the quarter and year-to-date, respectively, primarily due to the four hurricanes. Third quarter catastrophe losses are net of a $62 million reduction in previously booked exposure based reserves for the current accident year related to business written by LIU's reinsurance segment. Another factor increasing claims, benefits and expenses in the quarter and year-to-date was the non-renewal of certain workers' compensation excess of loss reinsurance treaties, subject to runoff provisions, which added $39 million and $110 million, respectively. Partially offsetting these increases in the quarter and year-to-date was a decrease in incurred losses attributable to prior years of $115 million and $206 million, respectively, primarily due to significantly lower incurred losses attributable to prior years asbestos liabilities in 2004. In the third quarter of 2003, the Company completed a comprehensive ground-up study of its asbestos liabilities, whereby the Company increased its incurred losses attributable to prior years by $173 million and recorded an allowance for uncollectible reinsurance on unpaid losses of $158 million. The balance of the year-to-date change primarily reflects business growth, general cost increases, and changes in underwriting profitability.

[1] Incurred losses attributable to prior years is defined as net incurred losses attributable to prior years gross of earned premium attributable to prior years and including discount accretion.
[2] The Company acquired Prudential Financial Inc.'s U.S. personal lines property and casualty business ("PruPac") in the fourth quarter of 2003.

CONSOLIDATED	Three Months Ended September 30, 2004	2003	Change (Points)	Nine Months Ended September 30, 2004	2003	Change (Points)
Combined ratio before catastrophes and net incurred attributable to prior years						
Claims and claim adjustment expense ratio	67.6%	70.5%	(2.9)	70.1%	71.7%	(1.6)
Underwriting expense ratio	25.0	25.6	(0.6)	25.6	26.5	(0.9)
Dividend ratio	0.6	0.1	0.5	0.4	0.4	-
Subtotal	93.2	96.2	(3.0)	96.1	98.6	(2.5)
Catastrophes[1]:						
- Four hurricanes 2004	14.2	-	14.2	4.8	-	4.8
- September 11, 2001	-	(0.1)	0.1	-	-	-
- All other	0.8	2.6	(1.8)	1.1	2.1	(1.0)
Net incurred attributable to prior years:						
- Asbestos	-	3.0	(3.0)	-	1.8	(1.8)
- All other	2.7	2.7	-	1.9	2.3	(0.4)
Discount accretion	0.6	0.5	0.1	0.6	0.5	0.1
Total combined ratio[2]	111.5%	104.9%	6.6	104.5%	105.3%	(0.8)

[1] The Company does not typically identify catastrophe losses from assumed reinsurance lines (assumed voluntary reinsurance and reinsurance assumed through Lloyd's Syndicates 282 & 190) in the tables above given the expected volatility associated with property-reinsurance coverage. However, given the significant impact that the four hurricanes and the events of September 11, 2001 had on the Company's results, these losses have been separately identified in the tables above. The four hurricanes' losses in the third quarter are reported net of the $62 million of exposure based reserves recorded in the first two quarters of 2004 and net of the Company's reasonable assumption of expected catastrophe activity (defined as "net catastrophe reinsurance premium earned"). Similarly, the four hurricanes' losses for the nine months ended September 30, 2004 include amounts in excess of the Company's reasonable assumption of expected property catastrophe losses. Catastrophe losses also include reinstatement premium.

[2] 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. Beginning in the second quarter of 2004, results of the Company's Group Market operations have been excluded from the above table and related discussion of the combined ratio. Prior periods have been restated to conform to the current presentation.

The consolidated combined ratio for the three and nine months ended September 30, 2004 was 111.5% and 104.5%, respectively, representing a 6.6 percentage point increase and 0.8 percentage point decrease over the same periods in 2003. Aggregate catastrophe losses added 12.5 and 3.8 percentage points to the quarter and year-to-date, respectively, compared to the same periods in 2003. Partially offsetting these increases in the quarter and year-to-date was a 3.0 and 2.2 percentage point decrease in net incurred losses attributable to prior years, respectively. The decrease in both periods primarily reflects significantly lower incurred losses attributable to prior years for asbestos liabilities in 2004. The Company completed its comprehensive ground-up study of asbestos liabilities in the third quarter of 2003. In addition, the expense ratio in both periods was favorably impacted by higher premium volume and an increase in revenues related to the Company's involuntary market servicing carrier operations. The balance of the improvement in the claims and claims adjustment expense ratio reflects the favorable impact of underwriting and pricing actions taken in both periods.

For the three and nine months ended September 30, 2004, the Company reported a pre-tax operating loss of $83 million and PTOI of $498 million, respectively. These results represent a decline of $59 million and an increase of $357 million over the same periods in 2003. The Company recognized no Federal or foreign income tax expense during the first nine months of 2004 as it continues to reduce its deferred tax asset valuation allowance.

For the three and nine months ended September 30, 2004, the Company reported a net loss of $11 million and net income of $680 million, respectively. These results represent a decline of $216 million and an increase of $264 million over the same periods in 2003. Results from discontinued operations primarily reflect the Company's Canadian personal lines business, which was sold to Meloche Monnex Inc., a member of TD Bank Financial Group ("Meloche Monnex"), on April 1, 2004.

PERSONAL MARKET

(1) Overview – Personal Market

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2004**	**2003**	**Change**	**2004**	**2003**	**Change**
Private Passenger Automobile	$1,086	$767	41.6%	$3,123	$2,275	37.3%
Homeowners and Other	370	232	59.5	1,005	621	61.8
Total net written premium	$1,456	$999	45.7%	$4,128	$2,896	42.5%

Net written premium for the three and nine months ended September 30, 2004 was $1.456 billion and $4.128 billion, respectively, representing a $457 million and $1.232 billion increase over the same periods in 2003. The increase reflects $348 million and $972 million of net written premium related to PruPac, in the quarter and year-to-date, respectively. New business growth and rate increases also contributed to the increase in both periods.

Private passenger automobile net written premium for the three and nine months ended September 30, 2004 was $1.086 billion and $3.123 billion, respectively, representing a $319 million and $848 million increase over the same periods in 2003. Approximately $244 million and $675 million of the increase in net written premium in the quarter and year-to-date, respectively, was related to the PruPac acquisition. New business growth and rate increases also contributed to the increase in both periods.

Homeowners and other net written premium for the three and nine months ended September 30, 2004 was $370 million and $1.005 billion, respectively, representing a $138 million and $384 million increase over the same periods in 2003. Approximately $104 million and $297 million of the increase in net written premium in the quarter and year-to-date, respectively, was related to the PruPac acquisition. New business growth and rate increases also contributed to the increase in both periods.

(2) Results of Operations – Personal Market

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2004**	**2003**	**Change**	**2004**	**2003**	**Change**
Revenues	$1,350	$988	36.6%	$3,990	$2,873	38.9%
PTOI before catastrophes and incurred attributable to prior years	$221	$135	63.7%	$579	$329	76.0%
Catastrophes:						
- Four hurricanes 2004	(319)	-	NM	(319)	-	NM
- September 11, 2001	-	-	-	-	-	-
- All other	(18)	(40)	(55.0)	(80)	(101)	(20.8)
Net incurred attributable to prior years:						
- Asbestos	-	-	-	-	-	-
- All other	(9)	(7)	28.6	(9)	(24)	(62.5)
Discount accretion	-	-	-	-	-	-
Pre-tax operating (loss) income	(125)	88	NM	171	204	(16.2)
Realized investment gains, net	-	-	-	-	-	-
Federal and foreign income tax benefit (expense)	44	(31)	NM	(60)	(71)	(15.5)
Discontinued operations, net of tax	(3)	-	NM	12	10	20.0
Net (loss) income	($84)	$57	NM	$123	$143	(14.0%)

NM = Not meaningful

Revenues for the three and nine months ended September 30, 2004 were $1.350 billion and $3.990 billion, respectively, representing a $362 million and $1.117 billion increase over the same periods in 2003. The major components of revenues include net premium earned, net investment income and fee and other revenues.

Net premium earned for the three and nine months ended September 30, 2004 was $1.257 billion and $3.725 billion, respectively, representing a $336 million and $1.050 billion increase over the same periods in 2003. The increase reflects $252 million and $784 million of earned premium in the quarter and year-to-date, respectively, related to the PruPac acquisition. New business growth and rate increases also contributed to the increase in both periods.

Net investment income for the three and nine months ended September 30, 2004 was $77 million and $221 million, respectively, representing a $23 million and $61 million increase over the same periods in 2003. Approximately $17 million and $49 million of the increase in investment income in the quarter and year-to-date was related to the PruPac acquisition. The balance of the increase in both periods reflects an increase in invested assets resulting from improved cash flow from operations, partially offset by lower investment yields.

Fee and other revenues for the three and nine months ended September 30, 2004 were $16 million and $44 million, respectively, representing a $3 million and $6 million increase over the same periods in 2003. Premium installment fees represent the majority of the fee and other revenues.

Claims, benefits and expenses for the three and nine months ended September 30, 2004 were $1.475 billion and $3.819 billion, respectively, representing a $575 million and $1.150 billion increase over the same periods in 2003. Approximately $251 million and $744 million of the increase in the quarter and year-to-date, respectively, was related to the PruPac acquisition, excluding catastrophe losses. Aggregate catastrophe losses increased $297 million and $298 million in the quarter and year-to-date, respectively, primarily due to the four hurricanes. The incurred losses attributable to prior years for the quarter was related to business assumed from involuntary pools. The balance of the increase in claims, benefits and

expenses in both periods reflects business growth and general cost increases over the comparable periods in 2003.

	Three Months Ended September 30,			Nine Months Ended September 30,		
PERSONAL MARKET	**2004**	**2003**	**Change (Points)**	**2004**	**2003**	**Change (Points)**
Combined ratio before catastrophes and net incurred attributable to prior years						
Claims and claim adjustment expense ratio	66.1%	70.6%	(4.5)	69.0%	72.4%	(3.4)
Underwriting expense ratio	21.4	20.4	1.0	20.9	20.6	0.3
Dividend ratio	0.7	-	0.7	0.2	-	0.2
Subtotal	88.2	91.0	(2.8)	90.1	93.0	(2.9)
Catastrophes:						
- Four hurricanes 2004	25.3	-	25.3	8.5	-	8.5
- September 11, 2001	-	-		-	-	-
- All other	1.5	4.3	(2.8)	2.2	3.8	(1.6)
Net incurred attributable to prior years:						
- Asbestos	-	-	-	-	-	-
- All other	0.7	0.7	-	0.2	0.9	(0.7)
Discount accretion	-	-	-	-	-	-
Total combined ratio	115.7%	96.0%	19.7	101.0%	97.7%	3.3

Personal Market's combined ratio for the three and nine months ended September 30, 2004 was 115.7% and 101.0%, respectively, representing a 19.7 and 3.3 percentage point deterioration over the same periods in 2003. The deterioration in both periods reflects an increase in catastrophe losses, expenses, and policyholder dividends. Catastrophe losses, primarily due to the four hurricanes, added 26.8 and 10.7 percentage points to the combined ratio in the quarter and year-to-date, respectively, representing an increase of 22.5 and 6.9 percentage points over the comparable periods in 2003. The underwriting expense ratio for the three and nine months ended September 30, 2004 increased 1.0 and 0.3 percentage points, respectively. This increase was primarily due to the higher level of commissions associated with the PruPac acquisition and an increase in expenses related to customer service and technology initiatives. The dividend ratio for the three and nine months ended September 30, 2004 increased 0.7 and 0.2 percentage points, respectively, reflecting a one-time dividend payment to New Jersey automobile policyholders. Partially offsetting these increases was the favorable impact of underwriting and pricing actions taken in both periods and a reduction in claim frequency. The combined ratio before catastrophes and net incurred attributable to prior years was 88.2% and 90.1% in the quarter and year-to-date, respectively, representing an improvement of 2.8 and 2.9 percentage points over the comparable periods in 2003.

For the three and nine months ended September 30, 2004, Personal Market reported a pre-tax operating loss of $125 million and PTOI of $171 million, respectively. These results represent a decline of $213 million and $33 million over the comparable periods in 2003. Consistent with operating results, Personal Market recognized a Federal and foreign income tax benefit of $44 million in the quarter and a Federal and foreign income tax expense of $60 million year-to-date. These amounts represent a decrease of $75 million and $11 million over the comparable periods in 2003.

For the three and nine months ended September 30, 2004, Personal Market reported a net loss of $84 million and net income of $123 million, respectively. This represents a decline of $141 million and $20 million over the same periods in 2003. Results from discontinued operations primarily reflect the Company's 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 September 30,			Nine Months Ended September 30,		
$ in Millions	**2004**	**2003**	**Change**	**2004**	**2003**	**Change**
Business Market	$318	$282	12.8%	$1,071	$936	14.4%
National Market	188	273	(31.1)	1,017	1,034	(1.6)
Wausau Commercial Market	210	184	14.1	702	626	12.1
Group Market	83	85	(2.4)	251	254	(1.2)
Specialty Risks	91	82	11.0	258	214	20.6
Other Markets	58	87	(33.3)	249	272	(8.5)
Total net written premium	$948	$993	(4.5%)	$3,548	$3,336	6.4%

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2004**	**2003**	**Change**	**2004**	**2003**	**Change**
Workers' Compensation	$531	$492	7.9%	$1,987	$1,834	8.3%
General Liability	65	111	(41.4)	465	414	12.3
Commercial Automobile	114	116	(1.7)	375	340	10.3
Group Disability	62	66	(6.1)	186	195	(4.6)
Surety	39	33	18.2	105	78	34.6
Fire	31	31	-	101	80	26.3
Assumed Voluntary Reinsurance	35	58	(39.7)	101	143	(29.4)
Commercial Multiple Peril	25	28	(10.7)	77	100	(23.0)
Other	46	58	(20.7)	151	152	(0.7)
Total net written premium	$948	$993	(4.5%)	$3,548	$3,336	6.4%

Net written premium for the three and nine months ended September 30, 2004 was $948 million and $3.548 billion, respectively, representing a $45 million decrease and $212 million increase over the same periods in 2003. The decrease in the quarter was primarily driven by National Market refunded premium under "loss sensitive plans" due to favorable loss experience and conversions to large dollar deductible ("LDD") policies. Both periods reflect new business growth, rate increases and a general improvement in retention levels on renewal business primarily in the Company's National Market and Business Market segments, and the non-renewal of certain workers' compensation excess of loss reinsurance treaties, subject to runoff provisions, in 2003. The Commercial Markets continue to experience a shift away from traditional "first dollar" coverage toward more loss sensitive, service-oriented products such as LDD policies and self insurance plans, particularly in the National Market segment. Under a LDD policy, a policyholder is responsible for reimbursing the insurer for claim payments made up to the deductible level. An insurer provides additional coverage above the deductible amount and services the claims. LDD policies generate less premium than traditional coverage because the policyholder retains additional risk.

(2) Results of Operations – Commercial Markets

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2004**	**2003**	**Change**	**2004**	**2003**	**Change**
Revenues	$1,364	$1,350	1.0%	$4,072	$3,841	6.0%
PTOI before catastrophes and incurred attributable to prior years	$159	$142	12.0%	$355	$344	3.2%
Catastrophes[1, 2]:						
- Four hurricanes 2004	(100)	-	NM	(90)	-	NM
- September 11, 2001	-	2	NM	-	2	NM
- All other	2	(10)	NM	(6)	(22)	(72.7)
Net incurred attributable to prior years:						
- Asbestos	-	-	-	-	-	-
- All other[3]	(4)	(38)	(89.5)	(29)	(70)	(58.6)
Discount accretion[4]	(21)	(17)	23.5	(63)	(48)	31.3
Pre-tax operating income	36	79	(54.4)	167	206	(18.9)
Realized investment gains, net	-	-	-	-	-	-
Federal and foreign income tax expense	(14)	(27)	(48.1)	(60)	(72)	(16.7)
Discontinued operations, net of tax	-	(1)	NM	-	(1)	NM
Net income	$22	$51	(56.9%)	$107	$133	(19.5%)

1 The Company does not typically identify catastrophe losses from assumed voluntary reinsurance lines in the tables above given the expected volatility associated with property-reinsurance coverage. However, given the significant impact that the four hurricanes and the events of September 11, 2001 had on the Company's results, these losses have been separately identified in the tables above. The four hurricanes' losses in the third quarter are reported net of the Company's reasonable assumption of expected catastrophe activity (defined as "net catastrophe reinsurance premium earned"). Similarly, the four hurricanes' losses for the nine months ended September 30, 2004 include amounts in excess of the Company's reasonable assumption of expected property catastrophe losses. Catastrophe losses include $7 million of reinstatement premium in both periods of 2004.

2 Assumed catastrophe losses related to the four hurricanes are reported net of net catastrophe reinsurance premium earned of $5 million and $15 million for the three and nine months ended September 30, 2004, respectively.

3 Net of earned premium attributable to prior years of $3 million and $48 million for the three and nine months ended September 30, 2004, respectively; $25 million and $107 million for the comparable periods of 2003.

4 The Company discounts the long-term indemnity portion of its workers' compensation claims as permitted by insurance regulations. The discount accretion on these claims flows through underwriting results as the loss reserves accrete to nominal value.

NM= Not meaningful

Revenues for the three and nine months ended September 30, 2004 were $1.364 billion and $4.072 billion, respectively, representing a $14 million and $231 million increase over the same periods in 2003. The major components of revenues include net premium earned, net investment income, and fee and other revenues.

Net premium earned for the three and nine months ended September 30, 2004 was $1.103 billion and $3.269 billion, respectively, representing a $3 million decrease and $155 million increase over the same periods in 2003. Both periods reflect new business growth, rate increases and a general improvement in retention levels on renewal business primarily in the Company's National Market and Business Market segments, and the non-renewal of certain workers' compensation excess of loss reinsurance treaties in 2003. Partially offsetting these results in both periods were a $22 million and $59 million decrease in the quarter and year-to-date, respectively, in the amount of earned premium attributable to prior years, lower assumed voluntary reinsurance premium due to the selective underwriting and pricing of this business and an increase in the retrocession of assumed involuntary pool premium.

Net investment income for the three and nine months ended September 30, 2004 was $177 million and $523 million, respectively, representing a $11 million and $30 million increase over the same periods in 2003. The increase in both periods reflects an increase in invested assets resulting from improved cash flow from operations, partially offset by lower investment yields.

Fee and other revenues for the three and nine months ended September 30, 2004 were $84 million and $280 million, respectively, representing a $6 million and $46 million increase over the same periods in 2003. The increase in both periods was primarily due to higher fee revenues from involuntary market servicing carrier operations. As a servicing carrier, the Company is required to perform certain administrative duties such as issuing policies, collecting premiums, paying losses and providing loss control services on behalf of all participating involuntary pool members. 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 LLC, a third party administrator, and from other miscellaneous services provided by the Company.

Claims, benefits and expenses for the three and nine months ended September 30, 2004 were $1.328 billion and $3.905 billion, respectively, representing a $57 million and $270 million increase over the same periods in 2003. Catastrophe losses increased $88 million and $84 million over the comparable periods in 2003, primarily due to the four hurricanes. Another factor behind the increase was the non-renewal of certain workers' compensation excess of loss reinsurance treaties in the second quarter of 2003, which added $39 million and $110 million to the quarter and year-to-date results, respectively. These increases were partially offset by favorable loss experience on current accident year business and a $52 million and $85 million decrease in incurred losses attributable to prior years, respectively, over the comparable periods in 2003. Incurred losses attributable to prior years includes $8 million and $28 million for the three and nine months ended September 30, 2004, respectively, related to the anticipated reapportionment of involuntary market liabilities due to potential insolvencies. The balance of the year-to-date increase reflects new business growth and general cost increases.

	Three Months Ended September 30,			**Nine Months Ended September 30,**		
COMMERCIAL MARKETS	**2004**	**2003**	**Change (Points)**	**2004**	**2003**	**Change (Points)**
Combined ratio before catastrophes and net incurred attributable to prior years						
Claims and claim adjustment expense ratio	74.1%	76.2%	(2.1)	78.3%	77.6%	0.7
Underwriting expense ratio	23.5	23.7	(0.2)	22.2	23.9	(1.7)
Dividend ratio	0.4	(0.3)	0.7	0.3	0.4	(0.1)
Subtotal	98.0	99.6	(1.6)	100.8	101.9	(1.1)
Catastrophes[1]:						
- Four hurricanes 2004	9.8	-	9.8	3.0	-	3.0
- September 11, 2001	-	(0.2)	0.2	-	(0.1)	0.1
- All other	(0.2)	0.9	(1.1)	0.2	0.8	(0.6)
Net incurred attributable to prior years:						
- Asbestos	-	-	-	-	-	-
- All other	0.4	3.7	(3.3)	1.0	2.3	(1.3)
Discount accretion	2.1	1.7	0.4	2.1	1.7	0.4
Total combined ratio[2]	110.1%	105.7%	4.4	107.1%	106.6%	0.5

1 The Company does not typically identify catastrophe losses from assumed voluntary reinsurance lines in the tables above given the expected volatility associated with property-reinsurance coverage. However, given the significant impact that the four hurricanes and the events of September 11, 2001 had on the Company's results, these losses have been separately identified in the tables above. The four hurricanes' losses in the third quarter are reported net of the Company's reasonable assumption of expected catastrophe activity (defined as "net catastrophe reinsurance premium earned"). Similarly, the four hurricanes' losses for the nine months ended September 30, 2004 include amounts in excess of the Company's reasonable assumption of expected property catastrophe losses. Catastrophe losses include $7 million of reinstatement premium in both periods of 2004.

2 Beginning in the second quarter of 2004, results of the Company's Group Market operations have been excluded from the above table and related discussion on the combined ratio. Prior periods have been restated to conform to the current presentation.

The Commercial Markets combined ratio for the three and nine months ended September 30, 2004 was 110.1% and 107.1%, respectively, representing a 4.4 and 0.5 percentage point increase in the combined ratio over the same periods in 2003. Aggregate catastrophes losses primarily due to the four hurricanes

increased 8.9 and 2.5 percentage points in the quarter and year-to-date, respectively, over the comparable periods in 2003. In addition, the non-renewal of the aforementioned workers' compensation excess of loss reinsurance treaties in 2003 also negatively impacted the claims and claim adjustment expense ratio by approximately 1.4 and 1.8 percentage points in the quarter and year-to-date, respectively. Partially offsetting these unfavorable items was a 3.3 and 1.3 percentage point reduction resulting from lower net incurred losses attributable to prior years in the quarter and year-to-date, respectively. In addition, the underwriting expense ratio improved by 0.2 and 1.7 percentage points in the quarter and year-to-date, respectively, largely due to the effects of higher premium volumes and an increase in revenues related to the Company's servicing carrier operations. Both periods reflect the favorable impact of underwriting and pricing actions taken. The combined ratio before catastrophes and net incurred losses attributable to prior years was 98.0% and 100.8% in the quarter and year-to-date, respectively, representing an improvement of 1.6 and 1.1 percentage points over the comparable periods in 2003.

PTOI for the three and nine months ended September 30, 2004 was $36 million and $167 million, respectively, representing a $43 million and $39 million decrease over the same periods in 2003. Improved underwriting results and higher investment income in both periods were offset by higher catastrophe losses and other expenses, driven primarily by higher interest charges related to funds held balances on reinsurance treaties. Consistent with the change in profitability, Federal and foreign income taxes were $14 million and $60 million for the three and nine months ended September 30, 2004, respectively, representing a $13 million and $12 million decrease over the same periods in 2003.

Net income for the three and nine months ended September 30, 2004 was $22 million and $107 million, respectively, representing a $29 million and $26 million decrease over the same periods in 2003.

REGIONAL AGENCY MARKETS (RAM)

(1) Overview – RAM

RAM net written premium by market segment was as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2004**	**2003**	**Change**	**2004**	**2003**	**Change**
Standard Regional Companies	$745	$635	17.3%	$2,081	$1,817	14.5%
Specialty Operations	105	58	81.0	570	459	24.2
Liberty Northwest	101	87	16.1	303	259	17.0
Total net written premium	$951	$780	21.9%	$2,954	$2,535	16.5%

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2004**	**2003**	**Change**	**2004**	**2003**	**Change**
Commercial Lines						
Workers' compensation	$232	$151	53.6%	$928	$752	23.4%
Commercial multi-peril	267	222	20.3	752	625	20.3
Commercial automobile	148	126	17.5	419	358	17.0
General liability	33	34	(2.9)	109	96	13.5
Other	45	37	21.6	115	100	15.0
Subtotal	$725	$570	27.2%	$2,323	$1,931	20.3%
Personal Lines						
Private passenger automobile	$139	$137	1.5%	$405	$409	(1.0)%
Homeowners	77	65	18.5	203	180	12.8
Other	10	8	25.0	23	15	53.3
Subtotal	$226	$210	7.6%	$631	$604	4.5%
Total net written premium	$951	$780	21.9%	$2,954	$2,535	16.5%

NM = Not Meaningful

Net written premium for the three and nine months ended September 30, 2004 was $951 million and $2.954 billion, respectively, representing a $171 million and $419 million increase over the same periods in 2003. Approximately $33 million and $123 million of the increase in the quarter and year-to-date, respectively, was due to the reduction in business ceded to OneBeacon Insurance Company and its insurance company affiliates (collectively, "OneBeacon"). In November 2001, the Company acquired the renewal rights to certain small commercial and personal lines property and casualty business and related staff and operations of OneBeacon in the RAM operating territories excluding New England, New York and New Jersey. An additional $54 million and $130 million of the increase in the quarter and year-to-date, respectively, was related to Summit Holding Southeast Inc. ("Summit"), a workers' compensation specialty subsidiary operating primarily in Florida. The balance of the increase in both periods reflects new business growth, rate increases and a general improvement in retention levels across most of the RAM companies.

(2) Results of Operations – RAM

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2004**	**2003**	**Change**	**2004**	**2003**	**Change**
Revenues	$1,022	$864	18.3%	$2,886	$2,449	17.8%
PTOI before catastrophes and incurred attributable to prior years	$101	$109	(7.3)%	$262	$231	13.4%
Catastrophes:						
- Four hurricanes 2004	(4)	-	NM	(4)	-	NM
- September 11, 2001	-	-	-	-	-	-
- All other	(16)	(40)	(60.0)	(42)	(78)	(46.2)
Net incurred attributable to prior years:						
- Asbestos	-	-	-	-	-	-
- All other [1]	(23)	(19)	21.1	(14)	(23)	(39.1)
Discount accretion	-	-	-	-	-	-
Pre-tax operating income	58	50	16.0	202	130	55.4
Realized investment gains, net	3	3	0.0	1	5	(80.0)
Federal and foreign income tax expense	(20)	(18)	11.1	(71)	(47)	51.1
Discontinued operations, net of tax	-	-	-	-	-	-
Net income	$41	$35	17.1%	$132	$88	50.0%

1 Net of earned premium attributable to prior years of ($7) million and $0 for the three and nine months ended September 30, 2004, respectively; there was no earned premium attributable to prior years in 2003.

NM = Not Meaningful

Revenues for the three and nine months ended September 30, 2004 were $1.022 billion and $2.886 billion, respectively, representing a $158 million and $437 million increase over the same periods in 2003. The major components of revenues include net premium earned and net investment income.

Net premium earned for the three and nine months ended September 30, 2004 was $933 million and $2.643 billion, respectively, representing a $149 million and $425 million increase over the same periods in 2003. Approximately $40 million and $173 million of the increase in the quarter and year-to-date, respectively, was due to the reduction in business ceded to OneBeacon. Net premium earned for Summit for the three and nine months ended September 30, 2004 was $142 million and $383 million, respectively, representing a $36 million and $85 million increase over the same periods in 2003. The balance of the increase in both periods reflects new business growth, rate increases and a general improvement in retention levels across most product lines.

Net investment income for the three and nine months ended September 30, 2004 was $69 million and $199 million, respectively, representing a $5 million and $12 million increase over the same periods in 2003. The increase in both periods reflects an increase in invested assets resulting from improved cash flow from operations, partially offset by lower investment yields.

Claims, benefits and expenses for the three and nine months ended September 30, 2004 were $961 million and $2.683 billion, respectively, representing a $150 million and $369 million increase over the same periods in 2003. Approximately $56 million and $212 million of the increase in the quarter and year-to-date, respectively, was related to the reduction in business ceded to OneBeacon. Additionally, $23 million of incurred losses attributable to prior years was recognized in the third quarter of 2004 primarily relating to commercial multiple peril liability reserves due to an increase in loss severity. In the third quarter of 2003, $19 million of incurred losses attributable to prior years was recognized primarily on Liberty Northwest's workers' compensation business. The balance of the increase in both periods reflects the aforementioned commercial multiple peril liability claims severity in the current accident year, business growth and general cost increases over the comparable periods. Partially offsetting these increases was a lower amount of catastrophe losses resulting from favorable weather conditions.

REGIONAL AGENCY MARKETS	Three Months Ended September 30,			Nine Months Ended September 30,		
	2004	2003	Change (Points)	2004	2003	Change (Points)
Combined ratio before catastrophes and net incurred attributable to prior years						
Claims and claim adjustment expense ratio	64.1%	62.5%	1.6	64.9%	65.4%	(0.5)
Underwriting expense ratio	31.3	30.8	0.5	31.9	31.6	0.3
Dividend ratio	1.1	1.2	(0.1)	1.0	1.2	(0.2)
Subtotal	96.5	94.5	2.0	97.8	98.2	(0.4)
Catastrophes:						
- Four hurricanes 2004	0.4	-	0.4	0.2	-	0.2
- September 11, 2001	-	-	-	-	-	-
- All other	1.7	5.1	(3.4)	1.6	3.5	(1.9)
Net incurred attributable to prior years:						
- Asbestos	-	-	-	-	-	-
- All other	2.6	2.5	0.1	0.5	1.0	(0.5)
Discount accretion	-	-	-	-	-	-
Total combined ratio	101.2%	102.1%	(0.9)	100.1%	102.7%	(2.6)

RAM's combined ratio for the three and nine months ended September 30, 2004 was 101.2% and 100.1%, respectively, representing a 0.9 and 2.6 percentage point improvement over the same periods in 2003. Catastrophe losses improved 3.0 and 1.7 percentage points in the quarter and year-to-date, respectively, due to favorable weather conditions. In addition, net incurred losses attributable to prior years improved 0.5 percentage points year-to-date. Partially offsetting these improvements was the recognition of an increase in the severity of commercial multiple peril liability claims, which impacted both the current and prior accident years.

PTOI for the three and nine months ended September 30, 2004 was $58 million and $202 million, respectively, representing a $8 million and $72 million increase over the same periods in 2003. Consistent with the increase in profitability, Federal and foreign income taxes were $20 million and $71 million, respectively, representing a $2 million and $24 million increase over the same periods in 2003.

Net income for the three and nine months ended September 30, 2004 was $41 million and $132 million, respectively, representing a $6 million and $44 million increase over the same periods in 2003.

INTERNATIONAL

(1) Overview – International

International net written premium by market segment was as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2004**	**2003**	**Change**	**2004**	**2003**	**Change**
International Local Businesses	$471	$338	39.3%	$1,392	$1,060	31.3%
Liberty International Underwriters	283	346	(18.2)	1,148	997	15.1
Total net written premium	$754	$684	10.2%	$2,540	$2,057	23.5%

The Company's International operations provide insurance products and services through 1) Local Businesses or wholly owned local insurance companies which sell personal and small commercial lines products and 2) Liberty International Underwriters (LIU) which sells specialty commercial lines insurance and reinsurance products worldwide.

International's five major lines of business are as follows:

(1) Local Businesses: Personal and Small Commercial insurance;
(2) LIU Reinsurance: includes 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: includes Casualty, Excess Casualty, D&O, E&O and Professional Liability;
(4) LIU First Party: includes Marine, Energy, Engineering, Aviation and Property; and
(5) LIU Other: includes Workers' Compensation, Commercial Auto, and Residual Value.

International net written premium by major line of business was as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2004**	**2003**	**Change**	**2004**	**2003**	**Change**
Local Businesses	$471	$338	39.3%	$1,392	$1,060	31.3%
LIU Reinsurance	153	194	(21.1)	661	513	28.8
LIU Third Party	88	84	4.8	261	250	4.4
LIU First Party	32	53	(39.6)	162	177	(8.5)
LIU Other	10	15	(33.3)	64	57	12.3
Total net written premium	$754	$684	10.2%	$2,540	$2,057	23.5%

NM = Not Meaningful

Net written premium for the three and nine months ended September 30, 2004 was $754 million and $2.540 billion, respectively, representing a $70 million and $483 million increase over the same periods in 2003. Approximately $69 million and $262 million of the increase in the quarter and year-to-date, respectively, reflects the acquisitions the Company made in Spain, Portugal, Thailand and Chile. An additional $52 million and $172 million of the increase in the quarter and year-to-date, respectively, reflects organic growth from the Company's operations in Venezuela, Brazil and Spain. Results in the quarter were partially offset by the LIU segment, which decreased its writings in response to a less attractive rate environment. The sale of the Company's Canadian health business in July 2003 also reduced the year-to-date net written premium by $143 million.

Results of Operations – International

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2004**	**2003**	**Change**	**2004**	**2003**	**Change**
Revenues	$832	$866	(3.9)%	$2,612	$2,199	18.8%
PTOI before catastrophes and incurred attributable to prior years	$90	$50	80.0%	$286	$144	98.6%
Catastrophes[1, 2]:						
- Four hurricanes 2004	(101)	-	NM	(101)	-	NM
- September 11, 2001	-	-	-	-	-	-
- All other	-	-	-	-	-	-
Net incurred attributable to prior years:						
- Asbestos	-	-	-	-	-	-
- All other [3]	3	(9)	NM	(22)	(61)	(63.9)
Discount accretion	-	-	-	-	-	-
Pre-tax operating (loss) income	(8)	41	NM	163	83	96.4
Realized investment gains, net	2	83	(97.6)	13	71	(81.7)
Federal and foreign income tax benefit (expense)	2	(33)	NM	(41)	(64)	(35.9)
Discontinued operations, net of tax	-	-	-	-	-	-
Net (loss) income	$(4)	$91	NM	$135	$90	50.0%

1 The Company does not typically identify catastrophe losses from reinsurance assumed through Lloyd's Syndicates 282 & 190 in the tables above given the expected volatility associated with property-reinsurance coverage. However, given the significant impact that the four hurricanes and the events of September 11, 2001 had on the Company's results, these losses have been separately identified in the tables above. The four hurricanes' losses in the third quarter are reported net of the $62 million of exposure based reserves recorded in the first two quarters of 2004 and net of the Company's reasonable assumption of expected catastrophe activity (defined as "net catastrophe reinsurance premium earned"). Similarly, the four hurricanes' losses for the nine months ended September 30, 2004 include amounts in excess of the Company's reasonable assumption of expected property catastrophe losses. Catastrophe losses also include reinstatement premium.

2 Assumed catastrophe losses related to the four hurricanes are reported net of net catastrophe reinsurance premium earned of $87 million and $149 million for the three and nine months ended September 30, 2004, respectively.

3 Net of earned premium attributable to prior years of $1 million and $7 million for the three and nine months ended September 30, 2004, respectively; $10 million and $22 million for the comparable periods of 2003.

NM = Not Meaningful

Revenues for the three and nine months ended September 30, 2004 were $832 million and $2.612 million, respectively, representing a $34 million decrease and a $413 million increase over the same periods in 2003. The major components of revenues include net premium earned, net investment income, net realized investment gains/losses and fee and other revenues.

Net premium earned for the three and nine months ended September 30, 2004 was $753 million and $2.352 million, respectively, representing a $28 million and $400 million increase over the same periods in 2003. Approximately $69 million and $247 million of the increase in the quarter and year-to-date, respectively, reflects the acquisitions the Company made in Spain, Portugal, Thailand and Chile. An additional $52 million and $133 million of the increase in the quarter and year-to-date, respectively, reflects organic growth from the Company's operations in Venezuela, Brazil and Spain. LIU's Reinsurance operations' written and earned premium require significant estimation throughout the year. Results in the quarter were partially offset by a $106 million decrease in the LIU segment reflecting differences in the timing of net earned premium recognition between years, with additional estimated earned premium recognized in the third quarter of 2003 versus 2004. The sale of the Company's Canadian health business in July 2003 also reduced the year-to-date net earned premium by $142 million.

Net investment income for the three and nine months ended September 30, 2004 was $67 million and $222 million, respectively, representing an $18 million and $71 million increase over the same periods in 2003. Approximately $14 million and $38 million of the increase in the quarter and year-to-date, respectively,

was due to acquisition activity. The balance of the increase in both periods reflects an increase in invested assets due to improved cash flow from operations.

Net realized investment gains for the three and nine months ended September 30, 2004 were $2 million and $13 million representing an $81 million and $58 million decrease, respectively, over the same periods in 2003. The 2004 quarter and year-to-date results do not reflect the Company's Canadian health business which was sold in the third quarter of 2003. The results in 2003 were further impacted by realized investment losses as the Company realigned and reduced the risk of holding certain asset classes at its United Kingdom and Venezuela operations.

Fee and other revenues for the three and nine months ended September 30, 2004 were $10 million and $25 million, respectively, which was consistent with the same periods in 2003.

Claims, benefits and expenses for the three and nine months ended September 30, 2004 were $838 million and $2.436 billion, respectively, representing a $96 million and $391 million increase over the same periods in 2003. Losses related to the four hurricanes, net of reinstatement premium, added $188 million, net of $62 million of previously recognized exposure based reserves for the current accident year, to the quarter and $250 million year-to-date. Approximately $74 million and $256 million of the increase in the quarter and year-to-date, respectively, reflects acquisitions the Company made in Spain, Portugal, Thailand and Chile. An additional $17 million and $82 million of the increase in the quarter and year-to-date, respectively, reflects organic growth from the Company's operations in Venezuela, Brazil and Spain. Partially offsetting these increases was the sale of the Company's Canadian health business in July 2003, which accounted for $138 million of claims, benefits and expenses. Another factor partially offsetting the increase in the quarter was a higher amount of claims, benefits, and expenses in the third quarter of 2003 due to differences in the timing of earned premium recognition between years, with additional estimated earned premium recognized in the third quarter of 2003 versus 2004. The estimation of additional earned premium in the third quarter of 2003 resulted in recognition of additional losses associated with the additional exposure. The balance of the increase year-to-date reflects business growth and general cost increases.

	Three Months Ended September 30,			**Nine Months Ended September 30,**		
INTERNATIONAL	**2004**	**2003**	**Change (Points)**	**2004**	**2003**	**Change (Points)**
Combined ratio before catastrophes and net incurred attributable to prior years						
Claims and claim adjustment expense ratio	66.3%	70.6%	(4.3)	66.6%	69.5%	(2.9)
Underwriting expense ratio	27.1	30.2	(3.1)	28.5	29.0	(0.5)
Dividend ratio	-	-	-	-	-	-
Subtotal	93.4	100.8	(7.4)	95.1	98.5	(3.4)
Catastrophes[1]:						
- Four hurricanes 2004	14.0	-	14.0	4.5	-	4.5
- September 11, 2001	-	-	-	-	-	-
- All other	-	-	-	-	-	-
Net incurred attributable to prior years:						
- Asbestos	-	-	-	-	-	-
- All other	(0.5)	1.2	(1.7)	0.9	3.3	(2.4)
Discount accretion	-	-	-	-	-	-
Total combined ratio	106.9%	102.0%	4.9	100.5%	101.8%	(1.3)

1 The Company does not typically identify catastrophe losses from reinsurance assumed through Lloyd's Syndicates 282 & 190 in the tables above given the expected volatility associated with property-reinsurance coverage. However, given the significant impact that the four hurricanes and the events of September 11, 2001 had on the Company's results, these losses have been separately identified in the tables above. The four hurricanes' losses in the third quarter are reported net of the $62 million of exposure based reserves recorded in the first two quarters of 2004 and net of the Company's reasonable assumption of expected catastrophe activity (defined as "net catastrophe reinsurance premium earned"). Similarly, the four hurricanes' losses for the nine months ended September 30, 2004 include amounts in excess of the Company's reasonable assumption of expected property catastrophe losses. Catastrophe losses also include reinstatement premium.

International’s combined ratio for the three and nine months ended September 30, 2004 was 106.9% and 100.5%, respectively, representing a 4.9 percentage point deterioration and a 1.3 percentage point improvement over the comparable periods in 2003. Aggregate losses from the four hurricanes added 14.0 and 4.5 percentage points to the quarter and year-to-date combined ratio, respectively. The impact in the quarter only, reflects a reduction in previously booked exposure based reserves for the current accident year of $62 million, or 8.6 percentage points. In addition, net incurred losses attributable to prior years improved 1.7 and 2.4 percentage points in the quarter and year-to-date, respectively. This improvement was primarily related to favorable development on automobile business written in Spain. Another factor affecting the loss ratio in both periods was the favorable impact of pricing and underwriting actions taken principally in Brazil, Spain and Venezuela. The underwriting expense ratio for the three and nine months ended September 30, 2004 was 27.1% and 28.5%, respectively, representing a 3.1 and 0.5 percentage point improvement over the comparable periods in 2003. This improvement was primarily due to a year-to-date adjustment in the quarter to accrue reinsurance profit commissions through a reduction of ceded catastrophe premium.

In the three and nine months ended September 30, 2004, International reported a pre-tax operating loss of $8 million and a pre-tax operating gain of $163 million, respectively, representing a $49 million decrease and an $80 million increase over the same periods in 2003. Results for both periods were negatively impacted by losses relating to the four hurricanes in the LIU Reinsurance segment offset by continued strong performance across all other segments. Federal and foreign income taxes reflect volatility associated with different tax structures within countries in which the International segment operates and also reflect net reductions of the deferred tax asset valuation allowance. In the three and nine months ended September 30, 2004, International recognized a Federal and foreign income tax benefit of $2 million in the quarter and a Federal and foreign income tax expense of $41 million year-to-date, representing decreases of $35 million and $23 million over the same periods in 2003.

International reported a net loss of $4 million and a net income of $135 million for the three and nine months ended September 30, 2004, respectively, which represents a $95 million decrease and a $45 million increase over the same periods in 2003.

CORPORATE and OTHER

(1) Overview – Corporate and Other

Corporate and Other includes 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 asbestos, environmental, and toxic tort exposure and other internal discontinued operations, primarily the run-off of the California workers’ compensation business of Golden Eagle Insurance Corporation (“Golden Eagle”).

- Interest expense on the Company’s outstanding debt and gain or loss on extinguishment of debt.

- Internal reinsurance programs.

- Costs associated with certain long-term compensation plans and other corporate costs not allocated to the business units. For presentation in this MD&A, 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 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 and Other.

- Federal and foreign income taxes represent the difference between the consolidated income tax expense and the amounts recognized by the Personal, Commercial, RAM, and International segments. Domestic operations included in the segments reflect income tax at the 35% marginal U.S. Federal tax rate, while the International segment reflects the actual tax expense of each country.

(2) Results of Operations – Corporate and Other

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2004**	**2003**	**Change**	**2004**	**2003**	**Change**
Revenues	$314	$305	3.0%	$807	$762	5.9%
PTOI before catastrophes, incurred attributable to prior years, and allowance for uncollectible reinsurance on asbestos	$68	($10)	NM	$10	($105)	NM
Allowance for uncollectible reinsurance on asbestos	-	(158)	NM	-	(158)	NM
PTOI before catastrophes and incurred attributable to prior years	68	(168)	NM	10	(263)	NM
Catastrophes[1]:						
- Four hurricanes 2004	(39)	-	NM	(39)	-	NM
- September 11, 2001	-	-	-	-	-	-
- All other	-	-	-	-	-	-
Net incurred attributable to prior years:						
- Asbestos	-	(104)	NM	(4)	(173)	97.7
- All other	(70)	(10)	NM	(163)	(46)	NM
Discount accretion[2]	(3)	-	NM	(9)	-	NM
Pre-tax operating loss	(44)	(282)	84.4	(205)	(482)	57.5
Realized investment gains, net	70	126	(44.4)	155	210	(26.2)
Federal and foreign income tax (expense) benefit	(12)	122	(109.8)	232	229	1.3
Discontinued operations, net of tax	-	5	NM	1	5	(80.0)
Net income (loss)	$14	$(29)	NM	$183	$(38)	NM

1 Catastrophe losses include $7 million of reinstatement premium in both periods of 2004.
2 The Company discounts the long-term indemnity portion of its workers' compensation claims as permitted by insurance regulations. The discount accretion on these claims flows through underwriting results as the loss reserves accrete to nominal value. Asbestos settlements are discounted at 4.5%.
NM = Not Meaningful

Revenues for the three and nine months ended September 30, 2004 were $314 million and $807 million, respectively, representing a $9 million and $45 million increase over the same periods in 2003. The major components of revenues include net premium earned, net investment income, net realized investment gains and losses and fee and other revenue.

Net premium earned for the three and nine months ended September 30, 2004 was $61 million and $154 million, respectively, representing a $10 million increase and $25 million decrease over the same periods in 2003. The year-to-date decrease is primarily due to a decline in structured settlement sales.

Net investment income for the three and nine months ended September 30, 2004 was $162 million and $409 million, respectively, representing a $59 million and $112 million increase over the same periods in 2003. The improvement in net investment income was primarily due to increased limited partnership gains of $81 million and $151 million in the quarter and year-to-date, respectively.

Realized investment gains for the three and nine months ended September 30, 2004 were $70 million and $155 million, respectively, representing a $56 million and $55 million decrease from the same periods in 2003, primarily related to fixed maturities.

Claims, benefits and expenses for the three and nine months ended September 30, 2004 were $288 million and $857 million, respectively, representing a $173 million and $177 million decrease from the same periods in 2003. Incurred losses attributable to prior years decreased $41 million and $43 million in the quarter and year-to-date, respectively. In 2004, incurred losses attributable to prior years were primarily

related to other liability lines and the workers' compensation business of Golden Eagle. In 2003, incurred losses attributable to prior years were primarily related to the Company's ground-up study of asbestos reserves and the workers' compensation business of Golden Eagle. As a result of a 2003 ground-up study on asbestos reserves, the Company increased loss reserves by $173 million and recorded an allowance for uncollectible reinsurance on unpaid losses of $158 million. Additionally, interest expense increased $11 million and $35 million, in the quarter and year-to-date respectively, due to Liberty Mutual Group Inc.'s ("LMGI") $750 million senior debt issuance in March 2004 along with $420 million of notes issued in conjunction with the PruPac acquisition, offset by the tender of approximately $129 million of surplus notes and the prepayment of $130 million of PruPac notes in 2004. The Company recognized a $19 million loss from the early extinguishment of surplus notes in April 2004.

Pre-tax operating loss for the three and nine months ended September 30, 2004 was $44 million and $205 million, respectively, representing a $238 million and $277 million improvement over the same periods in 2003. Significant components of the improvement in PTOI in the quarter were $81 million of additional limited partnership income in 2004 and a $158 million allowance for uncollectible reinsurance for asbestos in 2003. Incurred losses attributable to prior years and catastrophe losses were materially consistent between periods. The improvement in year-to-date PTOI was most significantly impacted by $151 million of additional limited partnership income and the aforementioned allowance for uncollectible reinsurance in 2003. Corporate and Other recognized a Federal and foreign income tax expense of $12 million in the quarter and a Federal and foreign income tax benefit of $232 million year-to-date. The Company's improved operating performance on a year-to-date basis has allowed the Company to lower its tax valuation allowance, thereby reducing its effective tax rate to 0% and 6% in the nine months ended September 30, 2004 and 2003, respectively. The total valuation allowance on deferred tax assets for both domestic and international operations was $580 million and $800 million as of September 30, 2004 and December 31, 2003, respectively.

Net income for the three and nine months ended September 30, 2004 was $14 million and $183 million, respectively, representing a $43 million and $221 million increase over the same periods in 2003.

INVESTMENTS

General

The Company's investment strategy seeks long-term returns through disciplined security selection, portfolio diversity and an integrated approach to risk management. 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. 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 asset types include non-investment-grade bonds, foreign securities, limited partnerships including co-investments and direct investments in oil and gas ventures. 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 investment policy and strategy are reviewed and approved by the Investment Committee of its Board of Directors. The Investment Committee meets on a regular basis 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 September 30, 2004 and December 31, 2003:

$ in Millions	**As of September 30, 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	$34,526	90.6%	$32,287	90.8%
Equity securities, available for sale, at fair value	1,599	4.2	1,346	3.8
Trading securities, at fair value	438	1.1	208	0.6
Other investments (see table below)	955	2.5	768	2.2
Short-term investments	612	1.6	940	2.6
Total invested assets	$38,130	100.0%	$35,549	100.0%
Other Investments, at carrying value				
Limited partnerships (excluding Liberty Energy)	$685	71.7%	$564	73.4%
Liberty Energy limited partnerships	151	15.8	108	14.1
Other investments	119	12.5	96	12.5
Total other investments	$955	100.0%	$768	100.0%

Invested assets increased $2.581 billion in the first nine months of 2004 to $38.130 billion from $35.549 billion at December 31, 2003. The increase in invested assets was primarily attributable to strong cash flow from operations of $2.516 billion, approximately $600 million of assets, net of the purchase price, acquired in the Spain acquisition, and approximately $500 million of net proceeds from LMGI's March 23, 2004 debt offering. This was partially offset by a $371 million reduction in invested assets associated with the sale of the Canadian personal lines business to Meloche Monnex.

Fixed maturities increased $2.239 billion from December 31, 2003. The increase reflects the acquisition in Spain and an increase in cash available to invest, including proceeds related to the Company's first quarter debt issuance. This increase was partially offset by the sale of the Canadian personal lines business.

Net unrealized gains on fixed maturities as of September 30, 2004 were $1.332 billion, an $82 million or 5.8% decline from December 31, 2003. The decrease was primarily due to changes in interest rates, credit spreads and security sales. Gross unrealized gains related to fixed maturities decreased $88 million between December 31, 2003 and September 30, 2004 due to sales of securities in a gain position and the increase in short-term (five-year maturity and lower) U.S. treasury rates partially offset by a decrease in long-term (ten-year maturity and higher) U.S. treasury rates. The gross unrealized loss amount decreased by $6 million between December 31, 2003 and September 30, 2004 primarily due to credit spread tightening, a decrease in long-term interest rates and security sales.

Equity securities increased $253 million in the first nine months of 2004. This was mainly attributable to the acquisition in Spain ($66 million) and additional commitments to the asset class ($50 million).

The increase in trading securities for the first nine months of 2004 was primarily related to the acquisition in Spain, which added $198 million of trading securities to the portfolio.

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 that they offer the potential for superior long-term returns and are appropriate in the overall context of a diversified portfolio. As of September 30, 2004, the Company had unfunded energy and non-energy commitments of $144 million and $507 million, respectively.

As of September 30, 2004, no single issuer accounted for more than 1.31% of invested assets.

The following tables summarizes the Company's fixed income portfolio by security type, credit quality and maturity as of September 30, 2004 and December 31, 2003:

$ in Millions	**As of September 30, 2004**		**As of December 31, 2003**	
Fixed Maturities by Security Type	**Market Value**	**% of Total**	**Market Value**	**% of Total**
U.S. Treasury securities	$ 2,270	6.6%	$ 2,717	8.4%
Mortgage and asset-backed securities	12,448	36.1	11,499	35.6
State and municipal	1,429	4.1	1,250	3.9
Corporate and other	18,379	53.2	16,821	52.1
Total fixed maturities	$34,526	100.0%	$ 32,287	100.0%

During the first nine months of 2004, the Company reduced its allocation to U.S. Treasuries from 8.4% to 6.6%. This was primarily offset by a 1.1% increase in the allocation to Corporate and other bonds and by a 0.5% increase in Mortgage and Asset-Backed securities.

$ in Millions		**As of September 30, 2004**		**As of December 31, 2003**	
Fixed Maturities by Credit Quality	**NAIC Designation**	**Market Value**	**% of Total**	**Market Value**	**% of Total**
A- or higher	1	$28,132	81.5 %	$26,912	83.4%
BBB- to BBB+	2	4,095	11.9	3,084	9.5
BB- to BB+	3	1,043	3.0	1,039	3.2
B- to B+	4	1,148	3.3	988	3.1
CCC or lower	5	101	0.3	253	0.8
In or near default	6	7	-	11	-
Total fixed maturities		$34,526	100.0%	$32,287	100.0%

The Company increased its allocation of investment grade bonds to 93.4% at September 30, 2004 from 92.9% at December 31, 2003. The Company defines an investment grade bond as a security with a rating

designation from the National Association of Insurance Commissioners (NAIC) of Class 1 or 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. Within the investment grade sector, the Company increased its allocation to NAIC 2s by 2.4% during the first nine months of 2004. This was primarily offset by a 1.9% reduction in NAIC 1s from 83.4% to 81.5%.

The remaining 6.6% 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, Chile, Colombia and Venezuela. The 0.5% decline in NAIC 5s is primarily attributable to the credit upgrade of Venezuela.

$ in Millions	**As of September 30, 2004**		**As of December 31, 2003**	
Fixed Maturities by Maturity Date	**Market Value**	**% of Total**	**Market Value**	**% of Total**
1 yr or less	$ 752	2.2%	$ 877	2.7%
Over 1yr through 5yrs	5,342	15.4	4,985	15.4
Over 5yrs through 10yrs	7,801	22.6	7,086	22.0
Over ten years	8,183	23.7	7,840	24.3
Mortgage and asset backed securities	12,448	36.1	11,499	35.6
Total fixed maturities	$34,526	100.0%	$32,287	100.0%

During the first nine months of 2004, the Company left the average life of its fixed maturity portfolio relatively unchanged 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 third quarter and year-to-date net investment income at September 30, 2004 and September 30, 2003:

$ in Millions	**Three Months Ended September 30,**		**Nine Months Ended September 30,**	
Net Investment Income	**2004**	**2003**	**2004**	**2003**
Interest income	$480	$430	$1,442	$1,297
Dividends	12	19	60	55
Limited partnerships	77	(4)	124	(27)
Other investment income	-	1	2	2
Gross investment income	569	446	1,628	1,327
Investment expenses	(17)	(10)	(54)	(39)
Net investment income	$552	$436	$1,574	$1,288

Net investment income for the three months and nine months ended September 30, 2004 was $552 million and $1.574 billion, respectively, representing a $116 million and $286 million increase over the same periods in 2003. The $50 million and $145 million increase in interest income in the quarter and year-to-date, respectively, reflects the increase in income-bearing fixed maturity assets during the period as a result of improved cash flow and acquisition activity. The balance of the increase in both periods came primarily from the Company's investments in limited partnerships. Income from limited partnerships increased $81 million and $151 million in the quarter and year-to-date, respectively, primarily due to gains on energy-related investments. Partially offsetting the increase in invested assets in both periods was the lower interest rate environment in 2004.

Net Realized Investment Gains (Losses)

The following table summarizes the Company's third quarter and year-to-date net realized investment gains (losses) at September 30, 2004 and September 30, 2003:

$ in Millions **Net Realized Investment Gains (Losses)**	Sales & Dispositions	Impairments	Change in Trading Security Unrealized	Total
Three Months Ended September 30, 2004:				
Fixed maturities	$74	$ -	$4	$78
Common and preferred stock	-	(10)	-	(10)
Other	7	-	-	7
Total	$81	($10)	$4	$75
Three Months Ended September 30, 2003:				
Fixed maturities	$225	($7)	$ -	$218
Common and preferred stock	(4)	(1)	-	(5)
Other	(1)	-	-	(1)
Total	$220	($8)	$ -	$212
Nine Months Ended September 30, 2004:				
Fixed maturities	$190	($5)	$4	$189
Common and preferred stock	22	(34)	(8)	(20)
Other	-	-	-	-
Total	$212	($39)	($4)	$169
Nine Months Ended September 30, 2003:				
Fixed maturities	$300	($26)	$ 0	$274
Common and preferred stock	26	(18)	4	12
Other	-	-	-	-
Total	$326	($44)	$4	$286

$ in Millions	Three Months Ended September 30,		Nine Months Ended September 30,	
Components of Net Realized Investment Gains (Losses)	**2004**	**2003**	**2004**	**2003**
Fixed maturities:				
Gross realized gains	$91	$240	$226	$358
Gross realized losses	(13)	(22)	(37)	(84)
Equities:				
Gross realized gains	12	8	69	80
Gross realized losses	(22)	(13)	(89)	(68)
Other:				
Gross realized gains	9	-	6	2
Gross realized losses	(2)	(1)	(6)	(2)
Total Net Realized Investment Gains (Losses)	$75	$212	$169	$286

Net realized investment gains for the three months and nine months ended September 30, 2004 were $75 million and $169 million, respectively, representing a $137 million and $117 million decrease over the same periods in 2003. Included in the third quarter 2003 amounts were $218 million of gains primarily related to a restructuring of the fixed maturity portfolio. The Company realized $68 million and $169 million of gains from the sale of fixed maturities and equities in the quarter and year-to-date, respectively, compared to $213 million and $286 million in the same periods a year ago.

Total impairment losses on investments for the three and nine months ended September 30, 2004 were $10 million and $39 million, respectively. The $10 million of impairments in the three months ended September 30, 2004 related to the Company's equity portfolio. The impairment losses for the nine months ended September 30, 2004 includes $5 million related to asset-backed fixed maturity investments and $34 million related to equity investments.

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 September 30, 2004 totaled $38.130 billion.

Short-term debt outstanding at September 30, 2004 and December 31, 2003 was as follows:

$ in Millions	**As of September 30, 2004**	**As of December 31, 2003**
Commercial Paper	$111	$ 84
Revolving Credit Facilities	21	22
Medium Term Notes, maturing within one year	61	-
Total short-term debt	$193	$106

Long-term debt outstanding at September 30, 2004 and December 31, 2003 was as follows:

$ in Millions	**As of September 30, 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	27	88
Subtotal	2,106	1,676
Unamortized discount	(16)	(8)
Total long-term debt excluding current maturities	$2,090	$1,668

The Company issues commercial paper from LMGI. The total amount authorized for this program is $600 million and the program is backed by a $450 million 364-day revolving credit facility. To date, no funds have been borrowed under the 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 September 30, 2004, total short-term loans and borrowings under the Venezuelan credit facility were approximately $21 million.

The $430 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 financing obligations.

Consolidated interest expense for the three and nine months ended September 30, 2004 was $40 million and $117 million, respectively, representing a $14 million and $37 million increase over the same periods in 2003. The increase is primarily due to the aforementioned debt offering.

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 make funds available to the Company, whether in the form of loans, dividends or other distributions. As of September 30, 2004, the Company through its downstream subsidiary LMGI had $1.156 billion of debt outstanding.

In addition, the ability of the Company's insurance subsidiaries (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 Liberty Mutual Fire Insurance Company ("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 Employers Insurance Company of Wausau ("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 of Insurance, 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 LMHC Massachusetts Holdings Inc.

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 Liberty Corporate Services LLC (“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 not subject to regulatory approval is approximately $792 million.

Statutory Surplus

Statutory surplus as regards the policyholders for the combined operations of LMIC and its U.S. affiliates including international branches was $7.904 billion and $7.216 billion at September 30, 2004 and December 31, 2003, respectively. The increase in surplus in the first nine months of 2004 reflects $270 million of net income and $688 million of capital contributions, of which $148 million was used to retire surplus notes. Partially offsetting this increase was $149 million of affiliated unrealized capital losses, including $79 million of non-admitted statutory goodwill relating to the Company’s acquisition in January 2004 of Genesis Seguros Generales, S.A. and its subsidiary Seguros Genesis S.A. (collectively, “Genesis”).

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 asbestos and environmental 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 to the 2004 tables.

Unpaid Claims and Claim Adjustment Expenses

Reserves for property-casualty unpaid claims and claim adjustment expenses were $33.446 billion and $30.597 billion at September 30, 2004 and December 31, 2003, respectively. The increase was due to growth less the on-going settlement of claims and incurred losses attributable to prior years including discount accretion. For the three and nine months ended September 30, 2004 and 2003, incurred losses attributable to prior years including discount accretion were $124 million and $368 million, respectively, compared to $239 million and $574 million for the same periods in 2003.

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 and Environmental

The Company's asbestos and environmental reserves for unpaid claims and claim adjustment expenses were $1.360 billion and $1.441 billion at September 30, 2004 and December 31, 2003, respectively, net of reinsurance and including the related allowance for doubtful accounts.

Some of the Company's loss reserves are for asbestos and environmental claims and related litigation. While the estimation of asbestos claims and associated liabilities and the analysis of environmental 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 asbestos and environmental 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 reinsurance recoverables of $13.695 billion and $12.227 billion at September 30, 2004 and December 31, 2003, respectively, net of allowance for doubtful accounts of $319 million and $306 million, respectively. The significant contributors to the change for the first nine months are cessions to Nationwide Indemnity Co. and the state mandated involuntary pools and associations.

The 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 A+ from A.M. Best. The 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.

Approximately 93% of the Company's reinsurance recoverable balance, net of collateral held and including voluntary and involuntary pools and associations, was placed with reinsurers rated A- or better from A.M. Best at September 30, 2004. Collateral held against outstanding reinsurance recoverables balances was $3.6 billion and $3.3 billion at September 30, 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 and nine months ended September 30, 2004 were $10 million and $39 million, respectively. The $10 million of impairments in the three months ended September 30, 2004 related to the Company's equity portfolio. The impairment losses for the nine months ended September 30, 2004 includes $5 million related to asset-backed fixed maturity investments and $34 million related to equity investments. 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 and a corresponding charge to net income. Such losses are not deductible for Federal tax purposes.

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 $872 million and $762 million at September 30, 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 $1.339 billion and $1.104 billion as of September 30, 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

The net deferred income tax asset was $959 million and $860 million as of September 30, 2004 and December 31, 2003, respectively, net of a valuation allowance of $580 million and $800 million, respectively. Management believes it is more likely than not that the Company's deferred tax assets, net of valuation allowance, will be realized based on the Company's ability and likelihood of generating future taxable income. The increase in the Company's net deferred income tax asset reflects a decrease in unrealized investment gains and other changes to accumulated other comprehensive income, and a decrease in the tax valuation allowance. Partially offsetting this increase is a deferred tax expense related to operating activities.

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 and foreign income taxes based on amounts that it believes it ultimately will owe. Inherent in the provision for Federal and foreign 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 and foreign income taxes recorded in the consolidated financial statements.

About the Company

Boston-based Liberty Mutual Holding Company Inc. ("LMG") is a leading global insurer and sixth largest property and casualty insurer in the U.S. whose largest line of business is personal auto based on 2003 direct written premium. As of December 31, 2003, LMG had $64.4 billion in consolidated assets and $16.6 billion in annual consolidated revenue and ranked 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 indirect 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, including personal automobile, homeowners, workers' compensation, commercial multiple peril, commercial automobile, general liability, global specialty, group disability, assumed reinsurance, fire and surety.

LMG employs nearly 38,000 people in nearly 900 offices throughout the world.

The Company has five reporting segments: Commercial Markets; Personal Market; Regional Agency Markets (RAM); International; and Corporate and 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 web site at www.libertymutual.com/investors.