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

Quarter Ended December 31, 2004

Management's Discussion & 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 parent corporation of the Liberty Mutual Group of companies (the "Company" or "LMG"), for the three and twelve months ended December 31, 2004 and 2003. This Management's Discussion & Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the Company's Annual Report, Fourth Quarter 2004 Consolidated Financial Statements, Fourth Quarter 2004 Financial Supplement (unaudited), and First, Second, and Third Quarter 2004 MD&As located on the Company's 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; the impact of regulatory investigations or reforms, including governmental actions regarding the compensation of brokers and agents and the sale of nontraditional products and related disclosures; unusual loss activity resulting from adverse weather conditions, including storms, hurricanes, hail, snowfall and winter conditions; 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. For a detailed discussion of these and other cautionary statements, visit the Company's Investor Relations web site at www.libertymutual.com/investors. 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 & 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 & Analysis of Financial Condition and Results of Operations.

Three Months Ended December 31, 2004 - Consolidated Results of Operations

- Revenues for the three months ended December 31, 2004 were $5.274 billion, a $780 million or 17.4% increase over the same period in 2003.

- Net income for the three months ended December 31, 2004 was $565 million, a $130 million or 29.9% improvement over the same period in 2003. Results for 2004 include $232 million of incurred losses related to the completion of the Company's comprehensive review of pollution reserves in the fourth quarter of 2004.

- Cash flow from operations for the three months ended December 31, 2004 was $672 million, a $68 million or 9.2% decrease from the same period in 2003.

- The combined ratio before catastrophes[1], net incurred losses attributable to prior years[2] and discount accretion for the three months ended December 31, 2004 was 91.7%, a 5.9 percentage point improvement over the same period in 2003. Including the impact of catastrophes, net incurred losses attributable to prior years and discount accretion, the Company's combined ratio improved 4.2 percentage points to 98.3% in 2004.

- Net incurred losses attributable to prior years were $233 million and $172 million for the three months ended December 31, 2004 and 2003, respectively. Results for 2004 include $232 million of net incurred losses attributable to prior years related to the completion of the Company's comprehensive review of pollution reserves in the fourth quarter of 2004.

Twelve Months Ended December 31, 2004 - Consolidated Results of Operations

- Revenues for the twelve months ended December 31, 2004 were $19.641 billion, a $3.023 billion or 18.2% increase over the same period in 2003.

- Net income for the twelve months ended December 31, 2004 was $1.245 billion, a $394 million or 46.3% increase over the same period in 2003. Results for 2004 include $697 million of catastrophe losses and $316 million of net incurred losses attributable to prior years related to the completion of the Company's comprehensive review of pollution reserves.

- Cash flow from operations for the twelve months ended December 31, 2004 was $3.188 billion, a $509 million or 19.0% increase over the same period in 2003.

- The combined ratio before catastrophes, net incurred losses attributable to prior years and discount accretion for the twelve months ended December 31, 2004 was 95.0%, a 3.4 percentage point improvement over the same period in 2003. Including the impact of catastrophes, net incurred losses,

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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 Syndicate 4472 (formerly 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.

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 amortization of retroactive reinsurance gain and excluding discount accretion.

attributable to prior years and discount accretion, the Company's combined ratio improved 1.6 percentage points to 102.9% in 2004.

- Net incurred losses attributable to prior years were $474 million and $569 million for the twelve months ended December 31, 2004 and 2003, respectively. Results for 2004 include $316 million of net incurred losses attributable to prior years related to the completion of the Company's comprehensive review of pollution reserves in the fourth quarter of 2004. In 2003, the Company completed a comprehensive ground-up study of its asbestos liabilities, whereby the Company increased its net incurred losses attributable to prior years by $173 million and recorded an allowance for uncollectible reinsurance on unpaid losses of $158 million.

Financial Condition as of December 31, 2004

- Total assets increased to $72.359 billion as of December 31, 2004, a $7.972 billion or 12.4% increase from December 31, 2003.

- Policyholders' equity as of December 31, 2004 was $8.697 billion, a $1.316 billion or 17.8% increase from December 31, 2003.

- Net unrealized gains on fixed maturities as of December 31, 2004 were $1.322 billion, a $92 million or 6.5% decline from December 31, 2003.

- Statutory surplus as regards policyholders for the combined operations of Liberty Mutual Insurance Company ("LMIC") and its U.S. affiliates including international branches was $8.739 billion, a $1.523 billion or 21.1% increase from December 31, 2003.

Other 2004 4th Quarter Highlights

Rating Actions

- On November 16, 2004, Standard & Poor's affirmed its financial strength ratings of 'A' (Strong) on LMIC and its related property/casualty companies. For a detailed list of ratings, visit the Company's Investor Relations web site at www.libertymutual.com/investors.

Comprehensive Review of Pollution Reserves

- In the third quarter of 2004, the Company, in conjunction with its own internal review, engaged an independent actuarial firm to conduct a comprehensive review of its June 30, 2004 pollution reserves. The review was finalized in the fourth quarter of 2004 and indicated that the Company's carried reserves as of June 30, 2004 were below the independent actuary's best estimate. Accordingly, the Company added $232 million to its pollution reserves in the fourth quarter of 2004 for a total increase of $316 million in 2004. This action reflects management's best estimate, which was approximately $50 million above the estimate of the independent actuary.

Merger of Liberty Mutual Group Inc. and Liberty Mutual Capital Corporation (Boston)

- On October 8, 2004, Liberty Mutual Capital Corporation (Boston), the former issuer of commercial paper for the Liberty Mutual Group of companies, was merged with and into Liberty Mutual Group Inc. ("LMGI"). All commercial paper is now issued by LMGI as the surviving company of the merger. 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 guarantee of the commercial paper and medium-term notes from LMIC was ratified and confirmed upon the merger into LMGI.

Merger of Lloyd's Syndicates 190 and 282

- On October 25, 2004, Liberty Syndicates announced the merger for the 2005 year of its two syndicates at Lloyd's: Syndicate 190 and Syndicate 282. Merged Syndicate 4472 began operations January 1, 2005.

Comment on Various Subpoenas

- As previously disclosed, the Company has received subpoenas and other requests for information from various state and governmental authorities as part of the on-going insurance industry investigation of broker commission and sale practices. The Company also received subpoenas with respect to its purchase and sale of "non-traditional" or loss-mitigation products. As the sixth largest property and casualty insurer in the United States based on 2003 direct written premium, the Company expects that it may receive additional subpoenas or requests for such types of information as the investigations continue. To date, the Company has not been named or referenced in any lawsuits stemming from these investigations. The Company has cooperated with all regulatory authorities in connection with these investigations and will continue to do so.

Events Subsequent to December 31, 2004

Rating Actions

- On February 16, 2005, Moody's Investors Service confirmed its A2 insurer financial strength rating on LMIC and its related property/casualty companies, Baa2 rating on LMIC's surplus notes and Baa3 rating on LMGI's senior unsecured notes. The outlook for all of these ratings remains negative. This announcement concluded a review by Moody's of the Company's ratings for possible downgrade that was initiated on August 13, 2004. For a detailed list of ratings, visit the Company's Investor Relations web site at www.libertymutual.com/investors.

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 generally 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 December 31,			Twelve Months Ended December 31,		
$ in Millions	**2004**	**2003**	**Change**	**2004**	**2003**	**Change**
Private passenger automobile	$1,272	$1,179	7.9%	$5,622	$4,353	29.2%
Workers' compensation	854	589	45.0	3,667	3,119	17.6
Homeowners	373	304	22.7	1,480	1,039	42.4
Commercial multiple peril / Fire	339	273	24.2	1,310	1,107	18.3
Commercial automobile	248	217	14.3	1,042	916	13.8
International local businesses [1]	246	153	60.8	816	724	12.7
LIU[2] reinsurance	149	212	(29.7)	810	725	11.7
General liability	160	81	97.5	783	628	24.7
LIU[2] third party	90	84	7.1	351	334	5.1
Group disability	62	60	3.3	248	255	(2.7)
LIU[2] first party	60	58	3.4	222	235	(5.5)
Surety	38	53	(28.3)	143	131	9.2
Assumed reinsurance	20	78	(74.4)	121	221	(45.2)
Other	198	199	(0.5)	706	695	1.6
Total net written premium	$4,109	$3,540	16.1%	$17,321	$14,482	19.6%

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

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

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2004**	**2003**	**Change**	**2004**	**2003**	**Change**
Personal Market	$1,209	$1,121	7.9%	$5,337	$4,017	32.9%
Commercial Markets	1,117	1,014	10.2	4,665	4,350	7.2
Regional Agency Markets	857	756	13.4	3,811	3,291	15.8
International	848	727	16.6	3,388	2,784	21.7
Corporate and Other[1]	78	(78)	NM	120	40	200.0
Total net written premium	$4,109	$3,540	16.1%	$17,321	$14,482	19.6%

1 Corporate and Other reflects a change in the Company's method of reporting workers' compensation premiums, whereby Commercial Markets and Summit Holding Southeast Inc. ("Summit"), a workers' compensation specialty subsidiary operating primarily in Florida, are recorded on a "booked as billed" method. The difference from "booked at inception" is included in Corporate and Other. Summit was changed to the "booked as billed" method in the fourth quarter of 2003.

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

Net written premium for the three and twelve months ended December 31, 2004 was $4.109 billion and $17.321 billion, respectively, representing a $569 million and $2.839 billion increase over the same periods in 2003. The increase in the quarter and year-to-date reflects acquisition activity, net of dispositions, of $112 million and $1.326 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.

Significant changes in net written premium by major line of business for the quarter and year-to-date include an increase in workers' compensation in both periods, primarily due to the above noted change in the methodology for recognizing written premium. Adjusting for the impact of this change, workers' compensation net written premium would have increased 8.2% and 13.8% in the quarter and year-to-date, respectively. Additionally, increases in homeowners and international local businesses net written premium are primarily related to acquisition activity in the Personal Market and International segments, respectively. The increase in general liability net written premium in both periods was due to a combination of higher growth in the Company's commercial middle market and national account business and lower cessions to captives in the National Market segment. Conversely, the decrease in LIU reinsurance net written premium in the quarter is primarily due to the timing of recording net written premium estimates in 2003. For a more detailed explanation of the changes in net written premium by line of business for the quarter and year-to-date, please review the related discussion of financial results for each strategic business unit.

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

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2004**	**2003**	**Change**	**2004**	**2003**	**Change**
Revenues	$5,274	$4,494	17.4%	$19,641	$16,618	18.2%
PTOI before catastrophes, incurred attributable to prior years, and allowance for uncollectible reinsurance on asbestos	$683	$439	55.6%	$2,171	$1,382	57.1%
Allowance for uncollectible reinsurance on asbestos	1	-	NM	5	(158)	NM
PTOI before catastrophes and incurred attributable to prior years	684	439	55.8	2,176	1,224	77.8
Catastrophes[1, 2]:						
- Four hurricanes 2004	41	-	NM	(512)	-	NM
- September 11, 2001	(19)	72	NM	(19)	74	NM
- All other	(38)	(58)	(34.5)	(166)	(259)	(35.9)
Net incurred attributable to prior years:						
- Asbestos	(4)	(5)	(20.0)	(8)	(178)	(95.5)
- Pollution	(232)	-	NM	(316)	-	NM
- All other[3]	3	(167)	NM	(150)	(391)	(61.6)
Discount accretion[4]	(26)	(18)	44.4	(98)	(66)	48.5
Pre-tax operating income	409	263	55.5	907	404	124.5
Realized investment gains, net	143	87	64.4	312	373	(16.4)
Federal and foreign income tax benefit	-	25	NM	-	-	-
Discontinued operations, net of tax	16	(17)	NM	29	(3)	NM
Extraordinary items, net of tax	(3)	77	NM	(3)	77	NM
Net income	$565	$435	29.9%	$1,245	$851	46.3%

1 The Company does not typically identify catastrophe losses from assumed reinsurance lines (assumed voluntary reinsurance and reinsurance assumed through Lloyd's Syndicate 4472) in the tables above given the expected volatility associated with property-reinsurance coverage. However, due to 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 for the twelve months ended December 31, 2004 include amounts in excess of the Company's reasonable assumption of expected property catastrophe losses for the nine months ended September 30, 2004 (defined as "net catastrophe reinsurance premium earned"). Catastrophe losses include the impact of reinstatement premiums.

2 Year-to-date assumed catastrophe losses related to the four hurricanes are reported net of net catastrophe reinsurance premium earned of $164 million.

3 Net of earned premium attributable to prior years of $38 million and $93 million for the three and twelve months ended December 31, 2004, respectively, and $44 million and $173 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

Revenues for the three and twelve months ended December 31, 2004 were $5.274 billion and $19.641 billion, respectively, representing a $780 million and $3.023 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 twelve months ended December 31, 2004 was $4.420 billion and $16.563 billion, respectively, representing a $602 million and $2.607 billion increase over the same periods in 2003. The increase in the quarter and year-to-date reflects acquisition activity, net of dispositions, of $204 million and $1.266 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 twelve months ended December 31, 2004 was $528 million and $2.102 billion, respectively, representing a $54 million and $340 million increase over the same periods in 2003. The increase in the quarter primarily reflects a $67 million increase in interest and dividend income related to acquisition activity and improved cash flow from operations, partially offset by lower investment yields and a $10 million decline in limited partnership income. The increase year-to-date primarily reflects a $218 million increase in interest and dividend income related to acquisition activity and improved cash flow from operations, partially offset by lower investment yields and an increase in nominal investment expenses. Year-to-date results were also positively impacted by a $141 million increase in limited partnership income.

Net realized investment gains for the three and twelve months ended December 31, 2004 were $143 million and $312 million, respectively, representing a $56 million and $21 million increase over the comparable periods in 2003, which excludes the $82 million gain related to the sale of the Canadian health business in the third quarter of 2003. The increase in the quarter primarily reflects an increase in realized capital gains related to fixed maturities and a $34 million decrease in impairment losses over the comparable period in 2003.

Fee and other revenues for the three and twelve months ended December 31, 2004 were $183 million and $664 million, respectively, representing a $68 million and $137 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 resulting from a reclassification to deferred revenues from accrued claim and claim adjustment expenses in 2003.

Claims, benefits and expenses for the three and twelve months ended December 31, 2004 were $4.722 billion and $18.422 billion, respectively, representing a $578 million and $2.581 billion increase over the same periods in 2003. The increase in the quarter reflects acquisition activity, an increase in incurred losses attributable to prior years[1], the non-renewal of certain workers' compensation reinsurance treaties in 2003 and higher catastrophe losses. Partially offsetting these increases in the quarter was a general improvement in current underwriting results. In the quarter, acquisition activity, net of dispositions and excluding catastrophe losses and incurred losses attributable to prior years related to PruPac[2], added $90 million to claims, benefits and expenses. Similarly, incurred losses attributable to prior years increased $63 million in the quarter. In the fourth quarter of 2004, the Company completed its comprehensive review of pollution reserves. Based on this review, the Company added $232 million to its pollution reserves in the quarter to reflect management's best estimate, which was approximately $50 million above the estimate of the independent actuary. The non-renewal of certain workers' compensation excess of loss reinsurance treaties, subject to runoff provisions, added $27 million to claims, benefits and expenses in the quarter. Catastrophe losses were $17 million higher in the quarter which is primarily driven by the favorable development of September 11, 2001 reserves recognized in the fourth quarter of 2003. Also impacting fourth quarter catastrophe losses was a $41 million reduction in the ultimate loss estimate for the four hurricanes and a $20 million decrease in other catastrophe losses resulting from favorable weather conditions. The balance of the change in the quarter reflects organic business growth and general cost increases.

The year-to-date increase in claims, benefits and expenses reflects acquisition activity, higher catastrophe losses primarily related to the four hurricanes and the non-renewal of certain workers' compensation reinsurance treaties in 2003. These increases were partially offset by a decrease in incurred losses attributable to prior years and a general improvement in underwriting results. Acquisition activity, net of dispositions and excluding catastrophe losses and incurred losses attributable to prior years related to PruPac, added $1.164 billion to claims, benefits and expenses in the twelve months ended December 31, 2004. Year-to-date catastrophe losses increased $663 million, primarily due to the four hurricanes. The non-renewal of certain workers' compensation excess of loss reinsurance treaties, subject to runoff

[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 and amortization of retroactive reinsurance gain.

[2] The Company acquired Prudential Financial Inc.'s U.S. personal lines property and casualty business ("PruPac") in the fourth quarter of 2003.

provisions also added $137 million to year-to-date claims, benefits and expenses. Partially offsetting these increases was a decrease in incurred losses attributable to prior years of $143 million, which reflects a decrease in prior year development on the Company's core and asbestos reserve liabilities. 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. In 2004, the Company completed its comprehensive review of pollution reserves. Based on this review, the Company added $316 million to its pollution reserves to reflect management's best estimate, which was approximately $50 million above the estimate of the independent actuary. The balance of the change year-to-date reflects organic business growth and general cost increases.

	Three Months Ended December 31,			Twelve Months Ended December 31,		
CONSOLIDATED	**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	67.0%	70.6%	(3.6)	69.3%	71.4%	(2.1)
Underwriting expense ratio	24.4	27.4	(3.0)	25.3	26.8	(1.5)
Dividend ratio	0.3	(0.4)	0.7	0.4	0.2	0.2
Subtotal	91.7	97.6	(5.9)	95.0	98.4	(3.4)
Catastrophes[1]:						
- Four hurricanes 2004	(1.0)	-	(1.0)	3.2	-	3.2
- September 11, 2001	0.5	(2.0)	2.5	0.1	(0.6)	0.7
- All other	0.9	1.6	(0.7)	1.1	2.0	(0.9)
Net incurred attributable to prior years:						
- Asbestos	0.1	0.1	-	0.1	1.4	(1.3)
- Pollution	5.5	-	5.5	2.0	-	2.0
- All other	-	4.7	(4.7)	0.8	2.8	(2.0)
Discount accretion	0.6	0.5	0.1	0.6	0.5	0.1
Total combined ratio[2]	98.3%	102.5%	(4.2)	102.9%	104.5%	(1.6)

1 The Company does not typically identify catastrophe losses from assumed reinsurance lines (assumed voluntary reinsurance and reinsurance assumed through Lloyd's Syndicate 4472) in the tables above given the expected volatility associated with property-reinsurance coverage. However, due to 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 for the three and twelve months ended December 31, 2004 include amounts in excess of the Company's reasonable assumption of expected property catastrophe losses for the nine months ended September 30, 2004 (defined as "net catastrophe reinsurance premium earned"). Catastrophe losses include the impact of reinstatement premiums.

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 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 twelve months ended December 31, 2004 was 98.3% and 102.9%, respectively, representing a 4.2 and 1.6 percentage point improvement over the same periods in 2003. The improvement in the quarter primarily reflects the favorable impact of underwriting and pricing actions taken and a lower expense ratio primarily due to higher premium volume, an increase in revenues related to the Company's involuntary market servicing carrier operations and a reduction in the estimate of guaranty fund assessments. Partially offsetting these improvements in the quarter was a 0.8 percentage point increase in net incurred losses attributable to prior years, which was primarily due to an increase in pollution reserves. In the fourth quarter of 2004, as a result of a comprehensive review of pollution reserves, the Company added $232 million to its reserves, which resulted in a 5.5 percentage point increase in the combined ratio. This compares to 4.7 percentage points of non-pollution, non-asbestos reserve activity in the fourth quarter of 2003. In addition, catastrophe losses in the quarter were 0.8 percentage points higher than the comparable period in 2003, primarily due to the favorable development of September 11, 2001 reserves recognized in the fourth quarter of 2003. Another factor that partially offset the improvement in the quarter was a 0.7 percentage point increase in policyholder dividends, created by a favorable reserve adjustment in 2003.

The improvement in the year-to-date combined ratio reflects the favorable impact of underwriting and pricing actions taken, a lower expense ratio primarily due to higher premium volumes, an increase in revenues related to the Company's involuntary market servicing carrier operations and a 1.3 percentage point reduction in net incurred losses attributable to prior years. These improvements were partially offset by a 3.0 percentage point increase in catastrophe losses primarily related to the four hurricanes. The combined ratio before catastrophes and net incurred losses attributable to prior years including discount accretion was 91.7% and 95.0% in the quarter and year-to-date, respectively, representing an improvement of 5.9 and 3.4 percentage points over the comparable periods in 2003.

PTOI for the three and twelve months ended December 31, 2004 was $409 million and $907 million, respectively, representing a $146 million and $503 million increase over the comparable periods in 2003. The Company recognized no Federal or foreign income tax expense during 2004 as it continues to reduce its deferred tax asset valuation allowance.

Net income for the three and twelve months ended December 31, 2004 was $565 million and $1.245 billion, respectively, representing a $130 million and $394 million increase over the comparable 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 and the planned disposal of certain pension business in Spain, which was a part of the acquisition of Genesis Seguros Generales, S.A. and its subsidiary Seguros Genesis S.A. (collectively, "Genesis"). The extraordinary loss of $3 million in 2004 was due to purchase price adjustments associated with the PruPac acquisition. The extraordinary gain of $77 million in 2003 reflects the write-off of negative goodwill associated with the PruPac acquisition.

PERSONAL MARKET

(1) Overview – Personal Market

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

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2004**	**2003**	**Change**	**2004**	**2003**	**Change**
Private passenger automobile	$869	$837	3.8%	$3,992	$3,112	28.3%
Homeowners and other	340	284	19.7	1,345	905	48.6
Total net written premium	$1,209	$1,121	7.9%	$5,337	$4,017	32.9%

Net written premium for the three and twelve months ended December 31, 2004 was $1.209 billion and $5.337 billion, respectively, representing an $88 million and $1.320 billion increase over the same periods in 2003. The change in net written premium reflects a $5 million and $977 million increase in the quarter and year-to-date, respectively, related to PruPac. New business growth and rate increases also contributed to the increase in both periods.

Private passenger automobile net written premium for the three and twelve months ended December 31, 2004 was $869 million and $3.992 billion, respectively, representing a $32 million and $880 million increase over the same periods in 2003. The change in net written premium reflects a $21 million decrease and $654 million increase in the quarter and year-to-date, respectively, related to PruPac. The decrease in net written premium related to PruPac in the quarter is primarily due to the conversion of auto policies from six-month to twelve-month terms during the prior twelve months. New business growth and rate increases also contributed to the increase in both periods.

Homeowners and other net written premium for the three and twelve months ended December 31, 2004 was $340 million and $1.345 billion, respectively, representing a $56 million and $440 million increase over the same periods in 2003. The change in net written premium reflects a $26 million and $323 million increase in the quarter and year-to-date, respectively, related to PruPac. New business growth and rate increases also contributed to the increase in both periods.

(2) Results of Operations – Personal Market

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2004**	**2003**	**Change**	**2004**	**2003**	**Change**
Revenues	$1,388	$1,226	13.2%	$5,378	$4,099	31.2%
PTOI before catastrophes and incurred attributable to prior years	$261	$142	83.8%	$840	$471	78.3%
Catastrophes:						
- Four hurricanes 2004	50	-	NM	(269)	-	NM
- September 11, 2001	-	-	-	-	-	-
- All other	(11)	(45)	(75.6)	(91)	(146)	(37.7)
Net incurred attributable to prior years:						
- Asbestos	-	-	-	-	-	-
- All other	38	(12)	NM	29	(36)	NM
Discount accretion	-	-	-	-	-	-
Pre-tax operating income	338	85	NM	509	289	76.1
Realized investment gains, net	-	-	-	-	-	-
Federal and foreign income tax expense	(117)	(30)	NM	(177)	(101)	75.2
Discontinued operations, net of tax	6	(11)	NM	18	(1)	NM
Extraordinary items, net of tax	(3)	77	NM	(3)	77	NM
Net income	$224	$121	85.1%	$347	$264	31.4%

NM = Not meaningful

Revenues for the three and twelve months ended December 31, 2004 were $1.388 billion and $5.378 billion, respectively, representing a $162 million and $1.279 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 twelve months ended December 31, 2004 was $1.295 billion and $5.020 billion, respectively, representing a $154 million and $1.204 billion increase over the same periods in 2003. The increase reflects a $55 million and $839 million increase in the quarter and year-to-date, respectively, related to PruPac. New business growth and rate increases also contributed to the increase in both periods.

Net investment income for the three and twelve months ended December 31, 2004 was $78 million and $299 million, respectively, representing a $7 million and $68 million increase over the same periods in 2003. The increase reflects a $5 million and $54 million increase in the quarter and year-to-date, respectively, related to PruPac. 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 twelve months ended December 31, 2004 were $15 million and $59 million, respectively, representing a $1 million and $7 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 twelve months ended December 31, 2004 were $1.050 billion and $4.869 billion, respectively, representing a $91 million decrease and $1.059 billion increase over the same periods in 2003. Favorable underwriting results, lower catastrophe losses and a reduction in incurred losses attributable to prior years were the primary reasons for the decrease in the quarter. The decrease in the quarter reflects an $84 million decrease in catastrophe losses and a $50 million reduction in net incurred losses attributable to prior years primarily due to better than anticipated claim frequency trends in the auto and homeowners lines of business. The decrease in aggregate catastrophe losses for the quarter reflects lower catastrophe losses in general and a $50 million reduction in the ultimate loss estimate for the four hurricanes. Partially offsetting these decreases in the quarter were business growth and general cost increases. The increase on a year-to-date basis primarily reflects $747 million of expenses related to the PruPac acquisition, which excludes catastrophes and net incurred losses attributable to prior years, a $214 million increase in catastrophe losses primarily due to the four hurricanes, business growth and general cost increases. Partially offsetting these increases was a $65 million decrease in net incurred losses attributable to prior years due in part to the aforementioned improvement in claims frequency.

	Three Months Ended December 31,			Twelve Months Ended December 31,		
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	66.2%	73.0%	(6.8)	68.3%	72.6%	(4.3)
Underwriting expense ratio	19.3	20.2	(0.9)	20.5	20.6	(0.1)
Dividend ratio	-	-	-	0.2	-	0.2
Subtotal	85.5	93.2	(7.7)	89.0	93.2	(4.2)
Catastrophes:						
- Four hurricanes 2004	(3.9)	-	(3.9)	5.3	-	5.3
- September 11, 2001	-	-	-	-	-	-
- All other	0.9	3.9	(3.0)	1.8	3.8	(2.0)
Net incurred attributable to prior years:						
- Asbestos	-	-	-	-	-	-
- All other	(2.9)	1.0	(3.9)	(0.6)	0.9	(1.5)
Discount accretion	-	-	-	-	-	-
Total combined ratio	79.6%	98.1%	(18.5)	95.5%	97.9%	(2.4)

Personal Market's combined ratio for the three and twelve months ended December 31, 2004 was 79.6% and 95.5%, respectively, representing an 18.5 and 2.4 percentage point improvement over the same periods in 2003. The improvement in the quarter reflects the favorable impact of underwriting and pricing actions taken, a 6.9 percentage point decrease in catastrophe losses and a 3.9 percentage point decrease in net incurred losses attributable to prior years. The improvement year-to-date reflects the favorable impact of underwriting, pricing actions, and a 1.5 percentage point decrease in net incurred losses attributable to prior years due to better than anticipated claim frequency trends in the auto and homeowners lines of business. These improvements were partially offset by a 3.3 percentage point increase in catastrophe losses and a 0.2 percentage point increase in the dividend ratio resulting from a dividend payment to New Jersey automobile policyholders in the third quarter of 2004. The combined ratio before catastrophes and net incurred losses attributable to prior years was 85.5% and 89.0% in the quarter and year-to-date, respectively, representing an improvement of 7.7 and 4.2 percentage points over the comparable periods in 2003.

PTOI for the three and twelve months ended December 31, 2004 was $338 million and $509 million, respectively, representing a $253 million and $220 million increase over the comparable periods in 2003. Consistent with the change in profitability, Personal Market's Federal and foreign income tax expense for the three and twelve months ended December 31, 2004 was $117 million and $177 million, respectively. These amounts represent an increase of $87 million and $76 million over the comparable periods in 2003.

Net income for the three and twelve months ended December 31, 2004 was $224 million and $347 million, respectively, representing a $103 million and $83 million increase 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. The extraordinary loss of $3 million in 2004 was due to purchase price adjustments associated with the PruPac acquisition. The extraordinary gain in 2003 of $77 million reflected the write-off of negative goodwill associated with the PruPac acquisition.

COMMERCIAL MARKETS

(1) Overview – Commercial Markets

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

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2004**	**2003**	**Change**	**2004**	**2003**	**Change**
Business Market	$338	$312	8.3%	$1,409	$1,248	12.9%
National Market	274	183	49.7	1,291	1,217	6.0
Wausau Commercial Market	263	221	19.0	965	847	13.9
Specialty Risks	97	97	-	355	311	14.1
Group Market	84	77	9.0	335	331	1.2
Other Markets	61	124	(50.8)	310	396	(21.7)
Total net written premium	$1,117	$1,014	10.2%	$4,665	$4,350	7.2%

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

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2004**	**2003**	**Change**	**2004**	**2003**	**Change**
Workers' compensation	$604	$538	12.3%	$2,591	$2,372	9.2%
General liability	110	45	144.4	575	459	25.3
Commercial automobile	119	103	15.5	494	443	11.5
Commercial multiple peril / fire	79	60	31.7	257	240	7.1
Group disability	62	60	3.3	248	255	(2.7)
Surety	38	53	(28.3)	143	131	9.2
Assumed voluntary reinsurance	20	76	(73.7)	121	219	(44.7)
Other	85	79	7.6	236	231	2.2
Total net written premium	$1,117	$1,014	10.2%	$4,665	$4,350	7.2%

Net written premium for the three and twelve months ended December 31, 2004 was $1.117 billion and $4.665 billion, respectively, representing a $103 million and $315 million increase over the same periods in 2003, driven primarily by the Company's National Market, Business Market and Wausau Commercial Market segments. Both periods reflect new business growth, rate increases and a general improvement in retention levels in the workers' compensation, general liability and commercial auto lines of business. These increases also reflect the non-renewal of certain workers' compensation excess of loss reinsurance treaties, subject to runoff provisions, in 2003 of $19 million and $77 million for the quarter and year-to–date, respectively. The increase in general liability net written premium in both periods was due to a combination of higher growth in the Company's middle market and national account business and lower cessions to captives in the National Market segment. The decrease in Assumed Voluntary Reinsurance net written premium for both periods reflects the Company's selective underwriting and pricing of this business.

(2) Results of Operations – Commercial Markets

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2004**	**2003**	**Change**	**2004**	**2003**	**Change**
Revenues	$1,485	$1,390	6.8%	$5,557	$5,231	6.2%
PTOI before catastrophes and incurred attributable to prior years	$195	$101	93.1%	$550	$445	23.6%
Catastrophes[1, 2]:						
- Four hurricanes 2004	(4)	-	NM	(94)	-	NM
- September 11, 2001	1	72	NM	1	74	(98.6)
- All other	(5)	(7)	(28.6)	(11)	(29)	(62.1)
Net incurred attributable to prior years:						
- Asbestos	-	-	-	-	-	-
- All other[3]	7	(53)	NM	(22)	(123)	(82.1)
Discount accretion[4]	(21)	(18)	16.7	(84)	(66)	27.3
Pre-tax operating income	173	95	82.1	340	301	13.0
Realized investment gains, net	-	-	-	-	-	-
Federal and foreign income tax expense	(60)	(33)	81.8	(120)	(105)	14.3
Discontinued operations, net of tax	-	2	NM	-	1	NM
Extraordinary items, net of tax	-	-	-	-	-	-
Net income	$113	$64	76.6%	$220	$197	11.7%

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, due to 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 for the three and twelve months ended December 31, 2004 include amounts in excess of the Company's reasonable assumption of expected property catastrophe losses for the nine months ended September 30, 2004 (defined as "net catastrophe reinsurance premium earned"). Catastrophe losses include the impact of reinstatement premiums.

2 Year-to-date assumed catastrophe losses related to the four hurricanes are reported net of net catastrophe reinsurance premium earned of $15 million.

3 Net of earned premium attributable to prior years of $28 million and $76 million for the three and twelve months ended December 31, 2004, respectively; $32 million and $139 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 twelve months ended December 31, 2004 were $1.485 billion and $5.557 billion, respectively, representing a $95 million and $326 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 twelve months ended December 31, 2004 was $1.200 billion and $4.469 billion, respectively, representing a $41 million and $196 million increase over the same periods in 2003. Both periods reflect new business growth, rate increases, a general improvement in retention levels on renewal business, primarily in the Company's National Market, Business Market and Wausau Commercial Market segments, and the non-renewal of certain workers' compensation excess of loss reinsurance treaties, subject to runoff provisions, in 2003. Partially offsetting these results in both periods were a $4 million and $63 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 twelve months ended December 31, 2004 was $180 million and $703 million, respectively, representing a $13 million and $43 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 twelve months ended December 31, 2004 were $105 million and $385 million, respectively, representing a $41 million and $87 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 resulting from a reclassification to deferred revenues from accrued claim and claim adjustment expenses in 2003. 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 twelve months ended December 31, 2004 were $1.312 billion and $5.217 billion, respectively, representing a $17 million and $287 million increase over the same periods in 2003. The increase in both periods reflect higher catastrophe losses, the impact of non-renewing certain workers' compensation excess of loss reinsurance treaties, subject to runoff provisions, in 2003, growth in the business and general cost increases. These increases were partially offset by a decrease in the amount of incurred losses attributable to prior years and a general improvement in current underwriting results. Catastrophe losses in the quarter and year-to-date increased $62 million and $146 million, respectively, over the comparable periods in 2003. Contributing to the increase in both periods was the favorable development of September 11, 2001 reserves recognized in the third and fourth quarters of 2003. Year-to-date catastrophe losses were also impacted by $99 million of losses related to the four hurricanes. The non-renewal of certain workers' compensation excess of loss reinsurance treaties, subject to runoff provisions, in 2003 added $27 million and $137 million to the quarter and year-to-date results, respectively. Conversely, incurred losses attributable to prior years for the quarter and year-to-date decreased $61 million and $146 million over the comparable periods in 2003. Incurred losses attributable to prior years include $28 million for the twelve months ended December 31, 2004, related to the anticipated reapportionment of involuntary market liabilities due to potential insolvencies.

COMMERCIAL MARKETS	Three Months Ended December 31, 2004	2003	Change (Points)	Twelve Months Ended December 31, 2004	2003	Change (Points)
Combined ratio before catastrophes and net incurred attributable to prior years						
Claims and claim adjustment expense ratio	76.5%	83.1%	(6.6)	77.8%	79.1%	(1.3)
Underwriting expense ratio	19.4	22.8	(3.4)	21.5	23.6	(2.1)
Dividend ratio	-	(2.4)	2.4	0.2	(0.5)	0.7
Subtotal	95.9	103.5	(7.6)	99.5	102.2	(2.7)
Catastrophes[1]:						
- Four hurricanes 2004	0.3	-	0.3	2.3	-	2.3
- September 11, 2001	(0.1)	(6.9)	6.8	-	(1.9)	1.9
- All other	0.5	0.7	(0.2)	0.3	0.8	(0.5)
Net incurred attributable to prior years:						
- Asbestos	-	-	-	-	-	-
- All other	(0.6)	5.0	(5.6)	0.4	3.1	(2.7)
Discount accretion	1.9	1.7	0.2	2.1	1.7	0.4
Total combined ratio[2]	97.9%	104.0%	(6.1)	104.6%	105.9%	(1.3)

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, due to 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 for the three and twelve months ended December 31, 2004 include amounts in excess of the Company's reasonable assumption of expected property catastrophe losses for the nine months ended September 30, 2004 (defined as "net catastrophe reinsurance premium earned"). Catastrophe losses include the impact of reinstatement premiums.

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 twelve months ended December 31, 2004 was 97.9% and 104.6%, respectively, representing a 6.1 and 1.3 percentage point improvement over the comparable periods in 2003. The improvement in both periods reflects the favorable impact of underwriting and pricing actions taken, a reduction in net incurred losses attributable to prior years of 5.6 and 2.7 percentage points for the quarter and year-to-date, respectively, and a lower expense ratio. The improvement in the 2004 quarter and year-to-date claim and claim adjustment ratio reflects the favorable impact of underwriting and pricing actions taken and the Company's decision to record a higher level of 2003 accident year reserves in the fourth quarter of 2003. This decision resulted in a 5.7 and 1.6 percentage point increase in the Company's 2003 current accident year claims and claim adjustment expense ratio for the quarter and year-to-date, respectively. The underwriting expense ratio was 19.4% and 21.5% in the quarter and year-to-date, respectively, representing an improvement of 3.4 and 2.1 percentage points over the comparable periods in 2003. The lower expense ratio in both periods is largely the result of higher premium volumes, an increase in revenues related to the Company's servicing carrier operations and a reclassification to deferred servicing carrier revenues from accrued claim and claim adjustment expenses in 2003, which contributed to a higher expense ratio in 2003 with a corresponding decrease in the claim and claim adjustment expense ratio in 2003. Guaranty fund credits recognized in the fourth quarter of 2004 also contributed to the improvement.

Partially offsetting these favorable developments were higher catastrophe losses, the non-renewal of the aforementioned workers' compensation excess of loss reinsurance treaties, subject to runoff provisions, in 2003 and a higher dividend ratio due to a favorable reserve adjustment in 2003. Catastrophe losses added 6.9 and 3.7 percentage points to the quarter and year-to-date combined ratio, respectively, over the comparable periods in 2003. Contributing to the increase in both periods was the favorable development of September 11, 2001 reserves recognized in the third and fourth quarters of 2003. Losses resulting from the four hurricanes added 2.3 percentage points to the year-to-date combined ratio. Similarly, the non-renewal of the aforementioned workers' compensation excess of loss reinsurance treaties, subject to runoff provisions, in 2003 also negatively impacted the claims and claim adjustment expense ratio by approximately 0.7 and 1.5 percentage points in the quarter and year-to-date, respectively. The combined ratio before catastrophes and net incurred losses attributable to prior years including discount accretion was 95.9% and 99.5% in the quarter and year-to-date, respectively, representing an improvement of 7.6 and 2.7 percentage points over the comparable periods in 2003.

PTOI for the three and twelve months ended December 31, 2004 was $173 million and $340 million, respectively, representing a $78 million and $39 million increase 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 $60 million and $120 million for the three and twelve months ended December 31, 2004, respectively, representing a $27 million and $15 million increase over the same periods in 2003.

Net income for the three and twelve months ended December 31, 2004 was $113 million and $220 million, respectively, representing a $49 million and $23 million increase 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 December 31,			Twelve Months Ended December 31,		
$ in Millions	**2004**	**2003**	**Change**	**2004**	**2003**	**Change**
Standard Regional Companies	$643	$569	13.0%	$2,724	$2,386	14.2%
Specialty Operations[1]	109	89	22.5	679	548	23.9
Liberty Northwest	105	98	7.1	408	357	14.3
Total net written premium	$857	$756	13.4%	$3,811	$3,291	15.8%

[1] Includes Summit, GoAmerica and Business Solutions Group.

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

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2004**	**2003**	**Change**	**2004**	**2003**	**Change**
Commercial Lines						
Workers' compensation	$225	$185	21.6%	$1,153	$ 937	23.1%
Commercial multiple peril	237	197	20.3	989	822	20.3
Commercial automobile	129	113	14.2	548	471	16.3
General liability	35	22	59.1	144	118	22.0
Other	40	34	17.6	155	135	14.8
Subtotal	$666	$551	20.9%	$2,989	$2,483	20.4%
Personal Lines						
Private passenger automobile	$113	$130	(13.1%)	$518	$ 539	(3.9%)
Homeowners	67	59	13.6	270	239	13.0
Other	11	16	(31.3)	34	30	13.3
Subtotal	$191	$205	(6.8%)	$822	$808	1.7%
Total net written premium	$857	$756	13.4%	$3,811	$3,291	15.8%

NM = Not Meaningful

Net written premium for the three and twelve months ended December 31, 2004 was $857 million and $3.811 billion, respectively, representing a $101 million and $520 million increase over the same periods in 2003. Approximately $9 million and $132 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 property and casualty lines of business and related staff and operations of OneBeacon in the RAM operating territories, excluding New England, New York and New Jersey. An additional $26 million and $157 million of the increase in the quarter and year-to-date, respectively, was related to Summit. The balance of the increase in both periods reflects new business growth, rate increases and a general improvement in retention levels across most commercial lines. These increases were partially offset by a decrease in private passenger automobile net written premium due to the Company's re-underwriting, expanded tiered pricing and active non-renewal of certain classes of business

(2) *Results of Operations – RAM*

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2004**	**2003**	**Change**	**2004**	**2003**	**Change**
Revenues	$1,052	$880	19.5%	$3,938	$3,329	18.3%
PTOI before catastrophes and incurred attributable to prior years	$120	$117	2.6%	$382	$348	9.8%
Catastrophes:						
- Four hurricanes 2004	(2)	-	NM	(6)	-	NM
- September 11, 2001	-	-	-	-	-	-
- All other	(22)	(6)	NM	(64)	(84)	(23.8)
Net incurred attributable to prior years:						
- Asbestos	-	-	-	-	-	-
- All other [1]	(9)	4	NM	(23)	(19)	21.1
Discount accretion [2]	(2)	-	NM	(2)	-	NM
Pre-tax operating income	85	115	(26.1)	287	245	17.1
Realized investment gains, net	1	1	-	2	6	(66.7)
Federal and foreign income tax expense	(30)	(41)	(26.8)	(101)	(88)	14.8
Discontinued operations, net of tax	-	-	-	-	-	-
Extraordinary items, net of tax	-	-	-	-	-	-
Net income	$56	$75	(25.3%)	$188	$163	15.3%

1 Net of earned premium attributable to prior years of $11 million for the three and twelve months ended December 31, 2004; there was no earned premium attributable to prior years in 2003.

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.

NM = Not Meaningful

Revenues for the three and twelve months ended December 31, 2004 were $1.052 billion and $3.938 billion, respectively, representing a $172 million and $609 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 twelve months ended December 31, 2004 was $959 million and $3.602 billion, respectively, representing a $159 million and $584 million increase over the same periods in 2003. Approximately $53 million and $226 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 twelve months ended December 31, 2004 was $148 million and $531 million, respectively, representing a $51 million and $136 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 commercial lines, offset by a decrease in private passenger automobile business due to the Company's re-underwriting efforts, expanded tiered pricing and active non-renewal of certain classes of business

Net investment income for the three and twelve months ended December 31, 2004 was $75 million and $274 million, respectively, representing a $9 million and $21 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 twelve months ended December 31, 2004 were $966 million and $3.649 billion, respectively, representing a $202 million and $571 million increase over the same periods in 2003. The increase in the quarter reflects higher catastrophe losses and incurred losses attributable to prior years. Catastrophe losses in the quarter increased $18 million, largely due to the Midwest winter storms in December 2004. Incurred losses attributable to prior years increased $26 million in the quarter, primarily due to an increase in loss severity trends relating to commercial multiple peril liability claims. The balance of the increase in the quarter relates to business growth, an increase in loss severity trends relating to commercial multiple peril liability claims in the current accident year and general cost increases. The increase year-to-date reflects a reduction in business ceded to OneBeacon and higher incurred losses attributable to prior years, partially offset by a decrease in catastrophe losses. Approximately $196 million of the increase year-to-date was related to the reduction in business ceded to OneBeacon. Incurred losses attributable to prior years increased $17 million, primarily due to an increase in loss severity relating to commercial multiple peril liability reserves. Conversely, catastrophe losses on a year-to-date basis decreased $14 million resulting from favorable weather conditions. RAM had limited property exposure to the four hurricanes in 2004. The balance of the increase year-to-date relates to business growth, an increase in loss severity relating primarily to commercial multiple peril liability and general cost increases.

	Three Months Ended December 31,			**Twelve Months Ended December 31,**		
REGIONAL AGENCY 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	64.2%	61.3%	2.9	64.7%	64.3%	0.4
Underwriting expense ratio	30.4	31.9	(1.5)	31.5	31.7	(0.2)
Dividend ratio	1.5	1.1	0.4	1.1	1.2	(0.1)
Subtotal	96.1	94.3	1.8	97.3	97.2	0.1
Catastrophes:						
- Four hurricanes 2004	0.2	-	0.2	0.2	-	0.2
- September 11, 2001	-	-	-	-	-	-
- All other	2.4	0.8	1.6	1.8	2.8	(1.0)
Net incurred attributable to prior years:						
- Asbestos	-	-	-	-	-	-
- All other	1.0	(0.6)	1.6	0.7	0.6	0.1
Discount accretion	0.2	-	0.2	-	-	-
Total combined ratio	99.9%	94.5%	5.4	100.0%	100.6%	(0.6)

RAM's combined ratio for the three and twelve months ended December 31, 2004 was 99.9% and 100.0%, respectively, representing a 5.4 percentage point increase and 0.6 percentage point decrease from the same periods in 2003. The increase in the quarter reflects RAM's recognition of increased loss severity trends relating to commercial multiple peril liability claims in the current and prior accident years. In addition, catastrophe losses increased 1.8 percentage points in the quarter largely due to the Midwest winter storms in December 2004. Partially offsetting these increases in the quarter was a 1.5 percentage point improvement in the expense ratio. The improvement in the year-to-date reflects lower catastrophe losses due to favorable weather conditions and a lower underwriting expense ratio. Partially offsetting these improvements was the recognition of increased loss severity trends relating to commercial multiple peril liability claims in the current and prior accident years. The combined ratio before catastrophes and net incurred losses attributable to prior years including discount accretion was 96.1% and 97.3% in the quarter and year-to-date, respectively, representing increases of 1.8 and 0.1 percentage points over the comparable periods in 2003.

PTOI for the three and twelve months ended December 31, 2004 was $85 million and $287 million, respectively, representing a $30 million decrease and $42 million increase over the same periods in 2003. Federal and foreign income taxes were $30 million and $101 million, respectively, representing an $11 million decrease and $13 million increase over the same periods in 2003.

Net income for the three and twelve months ended December 31, 2004 was $56 million and $188 million, respectively, representing a $19 million decrease and $25 million increase over the same period in 2003.

INTERNATIONAL

(1) Overview – International

International net written premium by market segment was as follows:

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2004**	**2003**	**Change**	**2004**	**2003**	**Change**
International local businesses	$537	$363	47.9%	$1,929	$1,423	35.6%
Liberty International Underwriters	311	364	(14.6)	1,459	1,361	7.2
Total net written premium	$848	$727	16.6%	$3,388	$2,784	21.7%

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 Syndicate 4472 (formerly 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 line of business was as follows:

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2004**	**2003**	**Change**	**2004**	**2003**	**Change**
Local businesses	$537	$363	47.9%	$1,929	$1,423	35.6%
LIU reinsurance	149	212	(29.7)	810	725	11.7
LIU third party	90	84	7.1	351	334	5.1
LIU first party	60	58	3.4	222	235	(5.5)
LIU other	12	10	20.0	76	67	13.4
Total net written premium	$848	$727	16.6%	$3,388	$2,784	21.7%

NM = Not Meaningful

Net written premium for the three and twelve months ended December 31, 2004 was $848 million and $3.388 billion, respectively, representing a $121 million and $604 million increase over the same periods in 2003. Approximately $98 million and $360 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 $67 million and $263 million of the increase in the quarter and year-to-date, respectively, reflects organic growth from the Company's operations in Venezuela, Brazil, Colombia and Spain. These increases in the quarter, however, were partially offset by a decrease in net written premium related to LIU's Reinsurance segment primarily due to the timing of recording net written premium estimates in 2003. The sale of the Company's Canadian health business in July 2003 also reduced year-to-date net written premium by $143 million. The balance of the change in the quarter and year-to-date reflects organic growth from the remainder of International's operations and foreign currency appreciation predominantly related to the LIU Reinsurance segment.

Results of Operations – International

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2004**	**2003**	**Change**	**2004**	**2003**	**Change**
Revenues	$1,003	$717	39.9%	$3,615	$2,916	24.0%
PTOI before catastrophes and incurred attributable to prior years	$130	$102	27.5%	$416	$246	69.1%
Catastrophes[1, 2]:						
- Four hurricanes 2004	-	-	-	(101)	-	NM
- September 11, 2001	(20)	-	NM	(20)	-	NM
- All other	-	-	-	-	-	-
Net incurred attributable to prior years:						
- Asbestos	-	-	-	-	-	-
- All other [3]	(5)	(65)	(92.3)	(27)	(126)	(78.6)
Discount accretion	-	-	-	-	-	-
Pre-tax operating income	105	37	183.8	268	120	123.3
Realized investment gains, net	5	3	66.7	18	74	(75.7)
Federal and foreign income tax (expense) benefit	(7)	4	NM	(48)	(60)	(20.0)
Discontinued operations, net of tax	11	-	NM	11	-	NM
Extraordinary items, net of tax	-	-	-	-	-	-
Net income	$114	$44	159.1%	$249	$134	85.8%

1 The Company does not typically identify catastrophe losses from reinsurance assumed through Lloyd's Syndicate 4472 in the tables above given the expected volatility associated with property-reinsurance coverage. However, due to 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 for the twelve months ended December 31, 2004 include amounts in excess of the Company's reasonable assumption of expected property catastrophe losses for the nine months ended September 30, 2004 (defined as "net catastrophe reinsurance premium earned"). Catastrophe losses include the impact of reinstatement premiums.

2 Year-to-date assumed catastrophe losses related to the four hurricanes are reported net of related net catastrophe reinsurance premium earned of $149 million.

3 Net of earned premium attributable to prior years of ($1) million and $6 million for the three and twelve months ended December 31, 2004, respectively; $12 million and $34 million for the comparable periods of 2003.

NM = Not Meaningful

Revenues for the three and twelve months ended December 31, 2004 were $1.003 billion and $3.615 billion, respectively, representing a $286 million increase and a $699 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 twelve months ended December 31, 2004 was $910 million and $3.262 billion, respectively, representing a $257 million and $657 million increase over the same periods in 2003. Approximately $96 million and $343 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 $58 million and $297 million of the increase in the quarter and year-to-date, respectively, reflects organic growth principally from the Company's operations in Venezuela, Brazil, Colombia and Spain. The balance of the change in both periods reflects timing differences of when net premium was written between 2004 and 2003 and the impact of foreign currency appreciation at LIU's Reinsurance operations, organic growth from the remainder of LIU's operations and the sale of the Company's Canadian health business in July 2003 which reduced year-to-date net premium earned by $142 million.

Net investment income for the three and twelve months ended December 31, 2004 was $78 million and $300 million, respectively, representing a $22 million and $93 million increase over the same periods in 2003. Approximately $7 million and $45 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 resulting from improved cash flow from operations, partially offset by lower investment yields.

Net realized investment gains for the three and twelve months ended December 31, 2004 were $5 million and $18 million, respectively, representing a $2 million and $26 million increase over the same periods in 2003, excluding the $82 million gain related to the sale of the Canadian health business in the third quarter of 2003. In addition, the Company recognized $9 million and $24 million of realized gains in the three and twelve months ended December 31, 2004, respectively, related to the restructuring of the investment portfolio in Venezuela.

Fee and other revenues for the three and twelve months ended December 31, 2004 were $10 million and $35 million, respectively, which were consistent with the same periods in 2003.

Claims, benefits and expenses for the three and twelve months ended December 31, 2004 were $893 million and $3.329 billion, respectively, representing a $216 million and $607 million increase over the same periods in 2003. The increase in both periods primarily reflects acquisition and organic related growth in the business and higher catastrophe losses, partially offset by a decrease in incurred losses attributable to prior years, favorable underwriting results and the sale of the Company's Canadian health business, which only impacted the year-to-date results. Approximately $102 million and $358 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 $10 million and $124 million of the increase in the quarter and year-to-date, respectively, reflects organic growth from the Company's operations in Venezuela, Brazil, Colombia and Spain. Losses related to the four hurricanes had no impact on the quarter but added $250 million of year-to-date claims, benefits and expenses to LIU's Reinsurance segment. This was partially offset by favorable underwriting results in the LIU Reinsurance segment's other classes of business. Another $20 million of the increase in claims, benefits and expenses in the quarter and year-to-date was due to a recent court decision, which ruled that the World Trade Center disaster was a two event occurrence under certain insurance policy forms. Conversely, incurred losses attributable to prior years decreased $73 million and $127 million in the quarter and year-to-date. In addition, the sale of the Company's Canadian health business in July 2003 reduced year-to-date claims, benefits and expenses by $137 million.

INTERNATIONAL	Three Months Ended December 31, 2004	2003	Change (Points)	Twelve Months Ended December 31, 2004	2003	Change (Points)
Combined ratio before catastrophes and net incurred attributable to prior years						
Claims and claim adjustment expense ratio	57.6%	62.2%	(4.6)	64.1%	67.8%	(3.7)
Underwriting expense ratio	30.3	29.3	1.0	29.0	29.1	(0.1)
Dividend ratio	-	-	-	-	-	-
Subtotal	87.9	91.5	(3.6)	93.1	96.9	(3.8)
Catastrophes[1]:						
- Four hurricanes 2004	-	-	-	3.2	-	3.2
- September 11, 2001	2.3	-	2.3	0.6	-	0.6
- All other	-	-	-	-	-	-
Net incurred attributable to prior years:						
- Asbestos	-	-	-	-	-	-
- All other	0.5	10.3	(9.8)	0.9	4.9	(4.0)
Discount accretion	-	-	-	-	-	-
Total combined ratio	90.7%	101.8%	(11.1)	97.8%	101.8%	(4.0)

1 The Company does not typically identify catastrophe losses from reinsurance assumed through Lloyd's Syndicate 4472 in the tables above given the expected volatility associated with property-reinsurance coverage. However, due to 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 for the twelve months ended December 31, 2004 include amounts in excess of the Company's reasonable assumption of expected property catastrophe losses for the nine months ended September 30, 2004 (defined as "net catastrophe reinsurance premium earned"). Catastrophe losses include the impact of reinstatement premiums.

International's combined ratio for the three and twelve months ended December 31, 2004 was 90.7% and 97.8%, respectively, representing an 11.1 and 4.0 percentage point improvement over the comparable periods in 2003. The improvement in both periods primarily reflects the favorable impact of pricing and underwriting actions taken together with better than anticipated loss experience principally in Brazil, Spain Venezuela. As a result, International's claim and claim adjustment expense ratio before catastrophes and net incurred attributable to prior years for the three and twelve months ended December 31, 2004 was 57.6% and 64.1%, respectively, representing a 4.6 and 3.7 percentage point improvement over the comparable periods in 2003. In addition, net incurred losses attributable to prior years improved 9.8 and 4.0 percentage points in the quarter and year-to-date, respectively. The improvements in the quarter and year-to-date primarily reflect favorable underwriting results on automobile business written in Spain, automobile and other business written in Venezuela, the non-recurrence of reserve adjustments recorded in Brazil in 2003 and a decrease in adverse development in LIU's Other segment. Partially offsetting these improvements in the combined ratio was an increase in the impact of catastrophe losses and a higher expense ratio in the fourth quarter. Losses from the four hurricanes resulted in a 3.2 percentage point increase in the year-to-date combined ratio but had no impact on the quarter. In addition, a recent court decision which ruled that the World Trade Center disaster of September 11, 2001 was a two-event occurrence under certain insurance policy forms added 2.3 and 0.6 percentage points to the quarter and year-to-date combined ratio, respectively. The underwriting expense ratio for the three months ended December 31, 2004 was 30.3%, which represents a 1.0 percentage point deterioration over the comparable period in 2003 principally due to slightly lower policy acquisition costs in the fourth quarter of 2003. The combined before catastrophes and net incurred attributable to prior years for the three and twelve months ended December 31, 2004 was 87.9% and 93.1%, respectively, representing a 3.6 and 3.8 percentage point improvement over the comparable periods in 2003.

PTOI for the three and twelve months ended December 31, 2004 was $105 million and $268 million, respectively, representing a $68 million and $148 million increase over the same periods in 2003. Results for both periods reflect strong performance across all segments. In the three and twelve months ended December 31, 2004, International recognized Federal and foreign income tax expenses of $7 million and

$48 million, respectively, representing an $11 million increase and $12 million decrease over the comparable periods in 2003. 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.

Net income for the three and twelve months ended December 31, 2004 was $114 million and $249 million, respectively, representing a $70 million and $115 million increase over the same periods in 2003. The Company recorded a gain of $11 million, net of tax, in discontinued operations in the quarter related to the planned disposal of certain pension business in Spain, which was a part of the Genesis acquisition.

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.

- Certain discontinued operations, 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 and do not reflect changes in the domestic valuation allowance (included in Corporate & Other), while the International segment reflects the actual tax expense of each country including changes in the international valuation allowance.

- Net income (loss) related to energy and non-energy related limited partnership investments.

- Substantially all realized gains (losses) from the domestic property-casualty investment portfolio.

- Fee and other revenues from the Company's wholly owned subsidiary, Liberty Energy Holdings, LLC ("Liberty Energy"). Liberty Energy generates revenue from the production and sale of oil and gas.

(2) *Results of Operations – Corporate and Other*

$ in Millions	Three Months Ended December 31, 2004	2003	Change	Twelve Months Ended December 31, 2004	2003	Change
Revenues	$346	$281	23.1%	$1,153	$1,043	10.5%
PTOI before catastrophes, incurred attributable to prior years, and allowance for uncollectible reinsurance on asbestos	($23)	($23)	-	($17)	($128)	86.7%
Allowance for uncollectible reinsurance on asbestos	1	-	NM	5	(158)	NM
PTOI before catastrophes and incurred attributable to prior years	(22)	(23)	4.3	(12)	(286)	95.8
Catastrophes:						
- Four hurricanes 2004	(3)	-	NM	(42)	-	NM
- September 11, 2001	-	-	-	-	-	-
- All other	-	-	-	-	-	-
Net incurred attributable to prior years:						
- Asbestos	(4)	(5)	20.0	(8)	(178)	95.5
- Pollution	(232)	-	NM	(316)	-	NM
- All other	(28)	(41)	31.7	(107)	(87)	(23.0)
Discount accretion[1]	(3)	-	NM	(12)	-	NM
Pre-tax operating loss	(292)	(69)	NM	(497)	(551)	9.8
Realized investment gains, net	137	83	65.1	292	293	(0.3)
Federal and foreign income tax benefit	214	125	71.2	446	354	26.0
Discontinued operations, net of tax	(1)	(8)	87.5	-	(3)	NM
Extraordinary items, net of tax	-	-	-	-	-	-
Net income	$58	$131	(55.7%)	$241	$93	159.1%

1 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 twelve months ended December 31, 2004 were $346 million and $1.153 billion, respectively, representing a $65 million and $110 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 twelve months ended December 31, 2004 was $56 million and $210 million, respectively, representing a $9 million and $34 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 twelve months ended December 31, 2004 was $117 million and $526 million, respectively, representing a $3 million and $115 million increase over the same periods in 2003. The increase in net investment income year-to-date was primarily due to higher limited partnership income.

Realized investment gains for the three and twelve months ended December 31, 2004 were $137 million and $292 million, respectively, representing a $54 million increase in the quarter and $1 million decrease year-to-date. The increase in the quarter primarily reflects higher realized gains on fixed maturities, partially offset by lower gains on energy investments.

Fee and other revenues for the three and twelve months ended December 31, 2004 were $36 million and $125 million, respectively, representing a $17 million and $30 million increase over the same periods in 2003, primarily due to the production and sale of oil and gas from Liberty Energy operations.

Claims, benefits and expenses for the three and twelve months ended December 31, 2004 were $501 million and $1.358 billion, respectively, representing a $234 million and $57 million increase from the same periods in 2003. The increase in the quarter and year-to-date is primarily related to a $221 million and $178 million increase in incurred losses attributable to prior years, respectively, and higher interest expense related to the March 2004 debt issuance, partially offset by lower structured settlement sales and a reduction in estimated guaranty fund assessments. In 2004, incurred losses attributable to prior years were primarily related to the workers' compensation business of Golden Eagle and the Company's comprehensive pollution reserve study. As a result of the pollution study, the Company added $232 million to its pollution reserves in the fourth quarter of 2004 for a total year-to-date increase in prior year pollution reserves of $316 million. In 2003, incurred losses attributable to prior years were primarily related to the workers' compensation business of Golden Eagle and the Company's ground-up study of asbestos reserves. 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 $8 million and $43 million, in the quarter and year-to-date respectively, due to LMGI's $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 twelve months ended December 31, 2004 was $292 million and $497 million, respectively, representing a $223 million increase and $54 million improvement over the same periods in 2003. Significant components of the year-to-date improvement in PTOI were $141 million of additional limited partnership income in 2004, partially offset by higher incurred losses attributable to prior years (and the $158 million allowance for uncollectible reinsurance on unpaid losses) in 2004 than 2003. Corporate and Other recognized a Federal and foreign income tax benefit for the three and twelve months ended December 31, 2004 of $214 million and $446 million, respectively. 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% in the twelve months ended December 31, 2004 and 2003. The total valuation allowance on deferred tax assets for both domestic and international operations was $340 million and $800 million as of December 31, 2004 and December 31, 2003, respectively.

Net income for the three and twelve months ended December 31, 2004 was $58 million and $241 million, respectively, representing a $73 million decrease and $148 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 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 December 31, 2004 and December 31, 2003:

$ in Millions	**As of December 31, 2004**		**As of December 31, 2003**	
Invested Assets by Type	**Market Value**	**% of Total**	**Market Value**	**% of Total**
Fixed maturities, available for sale, at fair value	$35,601	90.0%	$32,287	90.8%
Equity securities, available for sale, at fair value	1,802	4.6	1,346	3.8
Trading securities, at fair value	457	1.2	208	0.6
Other investments (see table below)	990	2.5	768	2.2
Short-term investments	687	1.7	940	2.6
Total invested assets	$39,537	100.0%	$35,549	100.0%
Other Investments, at carrying value				
Limited partnerships	$881	89.0%	$672	87.5%
Other investments	109	11.0	96	12.5
Total other investments	$990	100.0%	$768	100.0%

Invested assets increased $3.988 billion in 2004 to $39.537 billion from $35.549 billion at December 31, 2003. The increase in invested assets was primarily attributable to strong cash flow from operations of $3.188 billion, approximately $600 million of assets, net of the purchase price, acquired in the Genesis 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 Company's Canadian personal lines business to Meloche Monnex in the second quarter of 2004.

Fixed maturities increased $3.314 billion from December 31, 2003. The increase reflects the Genesis acquisition 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 Company's Canadian personal lines business.

Net unrealized gains on fixed maturities as of December 31, 2004 were $1.322 billion, a $92 million or 6.5% decline from December 31, 2003. The decrease was primarily due to realized gains. Gross unrealized gains related to fixed maturities decreased $110 million between December 31, 2003 and December 31, 2004 due to realized gains 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 $18 million between December 31, 2003 and December 31, 2004 primarily due to credit spread tightening, a decline in long-term interest rates and security sales.

Equity securities increased $456 million in 2004. This was mainly attributable gains in the equity markets in 2004 relative to 2003, additional commitments to the asset class, and to the Genesis acquisition.

The $249 million increase in trading securities in 2004 was primarily related to the Genesis acquisition, which added $199 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 December 31, 2004, the Company had unfunded energy and non-energy commitments of $173 million and $473 million, respectively.

As of December 31, 2004, no single issuer accounted for more than 1.10% of invested assets.

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

$ in Millions	**As of December 31, 2004**		**As of December 31, 2003**	
Fixed Maturities by Security Type	**Market Value**	**% of Total**	**Market Value**	**% of Total**
U.S. Treasury securities	$ 2,703	7.6%	$ 2,717	8.4%
Mortgage and asset-backed securities	12,968	36.4	11,499	35.6
State and municipal	1,141	3.2	1,250	3.9
Corporate and other	18,789	52.8	16,821	52.1
Total fixed maturities	$ 35,601	100.0%	$ 32,287	100.0%

During 2004, the Company reduced its allocation to U.S. Treasuries from 8.4% to 7.6%. This was primarily offset by a 0.7% increase in the allocation to corporate and other bonds and by a 0.8% increase in mortgage and asset-backed securities.

$ in Millions		**As of December 31, 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	$29,275	82.2%	$26,912	83.4%
BBB- to BBB+	2	3,903	11.0	3,084	9.5
BB- to BB+	3	1,154	3.3	1,039	3.2
B- to B+	4	1,153	3.2	988	3.1
CCC or lower	5	109	0.3	253	0.8
In or near default	6	7	-	11	-
Total fixed maturities		$35,601	100.0%	$32,287	100.0%

The Company increased its allocation of investment grade bonds to 93.2% at December 31, 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 1.5% in 2004. This was primarily offset by a 1.2% reduction in NAIC 1s from 83.4% to 82.2%.

The remaining 6.8% of the Company's investment in fixed maturities are rated below investment grade. The Company's investment in below investment grade securities consists of two main components: (1) a diversified portfolio of high yield bonds within the domestic insurance portfolios; and (2) investments in individual emerging market sovereigns that support the Company's international insurance companies located in Argentina, Colombia and Venezuela. The 0.5% decline in NAIC 5s is primarily attributable to the credit upgrade of Venezuela.

$ in Millions	**As of December 31, 2004**		**As of December 31, 2003**	
Fixed Maturities by Maturity Date	**Market Value**	**% of Total**	**Market Value**	**% of Total**
1 yr or less	$ 890	2.5%	$ 877	2.7%
Over 1yr through 5yrs	5,543	15.6	4,985	15.4
Over 5yrs through 10yrs	8,148	22.9	7,086	22.0
Over ten years	8,052	22.6	7,840	24.3
Mortgage and asset backed securities	12,968	36.4	11,499	35.6
Total fixed maturities	$ 35,601	100.0%	$32,287	100.0%

During 2004, the Company decided to maintain the average life of its fixed maturity portfolio after taking into consideration changes in investment opportunities and its view of the current and prospective business and economic environment.

Net Investment Income

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

$ in Millions	**Three Months Ended December 31,**		**Twelve Months Ended December 31,**	
Net Investment Income	**2004**	**2003**	**2004**	**2003**
Interest income	$502	$462	$1,944	$1,759
Dividends	29	2	89	56
Limited partnerships	17	27	141	-
Other investment income	-	10	2	12
Gross investment income	548	501	2,176	1,827
Investment expenses	(20)	(27)	(74)	(65)
Net investment income	$528	$474	$2,102	$1,762

Net investment income for the three and twelve months ended December 31, 2004 was $528 million and $2.102 billion, respectively, representing a $54 million and $340 million increase over the same periods in 2003. The increase in the quarter primarily reflects a $67 million increase in interest and dividend income related to acquisition activity and improved cash flow from operations, partially offset by lower investment yields and a $10 million decline in limited partnership income. The increase year-to-date primarily reflects a $218 million increase in interest and dividend income related to acquisition activity and improved cash flow from operations, partially offset by lower investment yields and an increase in nominal investment expenses. Year-to-date results were also positively impacted by a $141 million increase in limited partnership income.

Net Realized Investment Gains (Losses)

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

$ in Millions **Net Realized Investment Gains (Losses)**	**Sales & Dispositions**	**Impairments**	**Change in Trading Security Unrealized**	**Total**
Three Months Ended December 31, 2004:				
Fixed maturities	$105	$ -	$10	$115
Common and preferred stock	35	4	5	44
Other	(16)	-	-	(16)
Total	$124	$4	$15	$143
Three Months Ended December 31, 2003:				
Fixed maturities	$34	($25)	$ -	$9
Common and preferred stock	44	(5)	8	47
Other	31	-	-	31
Total	$109	($30)	$ 8	$87
Twelve Months Ended December 31, 2004:				
Fixed maturities	$295	($5)	$14	$304
Common and preferred stock	57	(30)	(3)	24
Other	(16)	-	-	(16)
Total	$336	($35)	$11	$312
Twelve Months Ended December 31, 2003:				
Fixed maturities	$250	($49)	$ -	$201
Common and preferred stock	70	(23)	12	59
Other	115	(2)	-	113
Total	$435	($74)	$12	$373

$ in Millions	Three Months Ended December 31,		Twelve Months Ended December 31,	
Components of Net Realized Investment Gains (Losses)	**2004**	**2003**	**2004**	**2003**
Fixed maturities:				
Gross realized gains	$138	$69	$365	$381
Gross realized losses	(23)	(60)	(61)	(180)
Equities:				
Gross realized gains	45	57	108	119
Gross realized losses	(1)	(10)	(84)	(60)
Other:				
Gross realized gains	-	38	5	126
Gross realized losses	(16)	(7)	(21)	(13)
Total net realized investment gains	$143	$87	$312	$373

Net realized investment gains for the three and twelve months ended December 31, 2004 were $143 million and $312 million, respectively, representing a $56 million and $21 million increase over the comparable periods in 2003, which excludes the $82 million gain related to the sale of the Canadian health business in the third quarter of 2003. The increase in the quarter primarily reflects an increase in realized capital gains related to fixed maturities and a $34 million decrease in impairment losses over the comparable period in 2003.

The following table shows a schedule of the Company's unrealized losses and fair value by security type by duration of potential impairment at December 31, 2004.

$ in Millions	**Less Than 12 Months**		**Greater Than 12 Months**	
Unrealized Losses & Fair Value by Security Type	**Unrealized Losses**	**Fair Value of Investments with Unrealized Losses**	**Unrealized Losses**	**Fair Value of Investments with Unrealized Losses**
U.S. Treasury securities	$ (9)	$ 1,062	$ (4)	$ 105
Mortgage and asset-backed securities	(24)	2,627	(27)	664
State and municipal	(2)	196	(2)	42
Corporate and other	(42)	3,184	(37)	882
Equities	(17)	136	(5)	25
Total	$ (94)	$ 7,205	$ (75)	$ 1,718

The Company frequently monitors the difference between the cost and estimated fair value of investments, which involves uncertainty as to whether declines in value are temporary in nature. The Company employs a systematic methodology to evaluate declines in fair values below amortized cost for all investments. The methodology utilizes a quantitative and qualitative process ensuring that available evidence concerning the declines in fair value below amortized cost is evaluated in a disciplined manner.

If the Company believes a decline in the value of a particular investment is temporary, the decline is recorded as an unrealized loss in shareholders' equity. If the decline is believed to be "other-than-temporary," the carrying value of the investment is written down to market and a realized loss is recorded. As a result of this review, the Company has concluded that the gross unrealized losses of fixed maturity securities as of December 31, 2004 are temporary.

The gross unrealized losses recorded on common equity securities and other investments at December 31, 2004 resulted primarily from decreases in quoted market values from the dates that certain investment securities were acquired as opposed to fundamental changes in the issuer's financial performance and near-term financial prospects. Therefore, these decreases are also viewed as being temporary in accordance with the Company's policy with respect to recognizing impairments in the investment portfolio.

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 December 31, 2004 totaled $39.537 billion.

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

$ in Millions	**As of December 31, 2004**	**As of December 31, 2003**
Commercial paper	$147	$ 84
Revolving credit facilities	29	22
Current maturities of long-term debt	77	-
Total short-term debt	$253	$106

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

$ in Millions	**As of December 31, 2004**	**As of December 31, 2003**
8.20% Surplus notes, due 2007	$121	$250
6.75% Notes, due 2008	15	15
5.00% Prudential notes due 2008	14	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
6.76% – 8.10%, Medium term notes, with various maturities	27	88
Subtotal	2,090	1,676
Unamortized discount	(16)	(8)
Total long-term debt excluding current maturities	$2,074	$1,668

On April 12, 2004, LMIC retired approximately $129 million of its $250 million of 8.20% Surplus Notes due 2007 and realized a loss of approximately $19 million on the tender offer. The Company entered into two promissory note agreements with Prudential in conjunction with the acquisition of all the outstanding stock of PruPac. On April 16, 2004, LMGI repaid approximately $130 of these notes.

On October 8, 2004, Liberty Mutual Capital Corporation (Boston), the former issuer of commercial paper for the Liberty Mutual Group of companies, was merged with and into Liberty Mutual Group Inc. ("LMGI"). All commercial paper is now issued by LMGI as the surviving company of the merger. 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 guarantee of the commercial paper and medium-term notes from LMIC was ratified and confirmed upon the merger into LMGI.

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 December 31, 2004, total short-term loans and borrowings under the Venezuelan credit facility were approximately $29 million.

The $406 million increase in long-term debt outstanding is primarily 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 twelve months ended December 31, 2004 was $40 million and $157 million, respectively, representing a $7 million and $44 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 wholly owned insurance and service company subsidiaries, and therefore is primarily dependent on dividends, distributions, loans or other payments of funds from these entities to meet its current and future obligations. However, 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 December 31, 2004, the Company, through its downstream subsidiary LMGI, had $1.266 billion of debt outstanding.

The insurance subsidiaries ability to pay dividends is restricted under applicable insurance law and regulations. Under the insurance laws of the domiciliary states of the insurance subsidiaries, an insurer may make an ordinary dividend payment if its surplus as regards to policyholders, following such dividend, is reasonable in relation to its outstanding liabilities and adequate to its financial needs. However, no insurer may pay an extraordinary dividend without the approval or non-disapproval of the domiciliary insurance regulatory authority. Under the insurance laws of Massachusetts, the domiciliary state of LMIC and LMFIC, an extraordinary dividend is defined as a dividend whose fair market value, together with other dividends made within the preceding 12 months, exceeds the greater of 10% of the insurer's surplus as regards policyholders as of the preceding December 31, or the insurer's net income for the 12-month period ending on the preceding December 31. Under the insurance laws of Wisconsin, the domiciliary state of EICOW, an extraordinary dividend is defined as a dividend whose fair market value, together with other dividends paid within the preceding 12 months, exceeds the lesser of (a) 10% of the insurer's surplus as regards policyholders as of the preceding December 31, or (b) the greater of (1) the insurer's net income for the preceding calendar year, minus realized capital gains for that calendar year, or (2) the aggregate of the insurer's net income for the three preceding calendar years minus realized capital gains for those calendar years and minus dividends paid within the first two of the preceding three calendar years. 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 Securities and Exchange Commission.

As of December 31, 2004, the authorized control level risk-based capital and 2005 dividend capacity prior to needing regulatory approval for LMIC, LMFIC and EICOW were as follows:

$ in Millions	**RBC Ratio [1]**			**Dividend Capacity[2]**
RBC Ratios and Dividend Capacity	**2004**	**2003**	**Change**	**2005**
LMIC	468%	360%	108 points	$743
LMFIC	465%	425%	40 points	$65
EICOW	338%	303%	35 points	$53

[1] Authorized control level risk-based capital as defined by the NAIC.
[2] Represents maximum allowable dividend without prior regulatory approval in the state of domicile.

In addition, management expects the Company's subsidiary, Liberty Corporate Services LLC ("service companies") to generate approximately $150 million of funding, which would be available to service the holding company obligations of LMGI in 2005. The service companies, which include Helmsman Insurance Agency, Summit Consulting and Helmsman Management Services, collect fees and other revenues for claims administration and agency services rendered for affiliated and non-affiliated insurance entities.

Statutory Surplus
Statutory surplus as regards policyholders for the combined operations of LMIC and its U.S. affiliates including international branches was $8.739 billion and $7.216 billion at December 31, 2004 and December 31, 2003, respectively. The increase in surplus reflects $721 million of net income and $769 million of capital contributions primarily related to the March 2004 debt offering, of which $148 million was used to retire surplus notes. The balance of the increase in statutory surplus primarily reflects changes in affiliated and unaffiliated unrealized gains, deferred taxes, foreign exchange and non-admitted assets.

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 $33.884 billion and $29.952 billion at December 31, 2004 and 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 twelve months ended December 31, 2004 and 2003, incurred losses attributable to prior years including discount accretion were $665 million and $808 million, respectively.

Property-casualty insurance unpaid claims and claim adjustment expenses represent the Company's best estimate of amounts necessary to settle all outstanding claims, including claims that are incurred but not reported as of the reporting date. The Company's reserve projections are based primarily on detailed analysis of the facts in each case, experience with similar cases and various historical development patterns. Consideration is given to such historical patterns as field reserving trends and claims settlement practices, loss payments, pending levels of unpaid claims and product mix, as well as court decisions, economic conditions and public attitudes. All of these factors can affect the estimation of reserves.

Establishing loss reserves, including loss reserves for catastrophic events that have occurred, is an estimation process. Many factors can ultimately affect the final settlement of a claim and, therefore, the necessary reserve. Changes in the law, results of litigated cases, medical costs, and cost of repair materials and labor rates can all affect ultimate claim costs. In addition, the span of time between the incidence of a loss and the payment or settlement of the claim can be a critical part of reserving determinations and will cause more variability in the ultimate claim cost. Accordingly, "short-tail" claims, such as property damage claims, tend to be easier to estimate than "long-tail" claims, such as workers' compensation or general liability claims.

As information develops that varies from past experience, provides additional data, or in some cases, augments data that previously was not considered sufficient for use in determining reserves, changes in the

Company's estimate of ultimate liabilities may be required. The effects of these changes are reflected in current operating results.

Asbestos and Environmental

The Company's asbestos and environmental (A&E) reserves for unpaid claims and claim adjustment expenses were $1.641 billion and $1.547 billion at December 31, 2004 and 2003, respectively, net of reinsurance and including the related allowance for doubtful accounts. The increase in A&E reserves reflects $316 million of incurred losses related to the Company's comprehensive pollution study, completed in the fourth quarter of 2004. The study was performed with the assistance of an independent actuarial firm, and focused on the implications of claim and litigation trends and other significant developments. The study encompassed the Company's liabilities with respect to both National Priority List (NPL) claims and direct site claims involving the presence of hazardous waste at sites owned or operated by the insured. Partially offsetting the increase is the settlement of A&E claims during 2004.

All A&E claims against 1986 and prior policies issued by EICOW and its affiliates are 100% ceded to Nationwide Indemnity Company and guaranteed by Nationwide Mutual Insurance Company. The Company's acquisition of PruPac included $175 million and $118 million of gross and net asbestos reserves, respectively. Any increase in asbestos reserves is reinsured by Vantage Casualty Insurance Company and guaranteed by Prudential Financial Inc.

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 $14.209 billion and $12.192 billion at December 31, 2004 and 2003, respectively, net of allowance for doubtful accounts of $349 million and $306 million, respectively. The majority of the increase reflects increased 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 December 31, 2004. Collateral held against outstanding reinsurance recoverables balances was $3.589 billion and $3.321 billion at December 31, 2004 and 2003, respectively.

The remaining 7% of the Company's reinsurance recoverable balance is well diversified. With the exception of Converium, no single reinsurer accounts for more than 1% of policyholder surplus. The average reinsurance recoverable balance of the remaining 7% is approximately $1 million, as of December 31, 2004.

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.

The Company is party to retroactive reinsurance arrangements where a significant portion of the consideration was retained on a "funds held" basis and interest is credited on the balance at a weighted average rate of approximately 7.7% annually. These contracts resulted in deferred gains (including experience related profit accruals of $195 million for the years ended December 31, 2004 and 2003) that are amortized into income using the effective interest method over the estimated settlement periods. At December 31, 2004 and 2003, the deferred gains related to these retroactive reinsurance arrangements were $973 million and $995 million, respectively, and are included in other liabilities within the consolidated balance sheets. Interest credited to the funds held balances for the years ended December 31, 2004 and 2003 was $103 million and $88 million, respectively. Amortization of deferred gain was $47 million and $48 million for the years ended December 31, 2004 and 2003, respectively. Reinsurance recoverables related to these transactions including experience related profit accruals were $2.219 billion and $2.197 billion as of December 31, 2004 and 2003, respectively.

Impairment Losses on Investments

Total impairment losses on investments for the twelve months ended December 31, 2004 was $35 million, a $39 million or 52.7% decrease over the same period in 2003. The $35 million of impairments in 2004 relate to the Company's equity portfolio and asset-backed fixed maturity investments. Unrealized losses that are other-than-temporary are recognized as realized losses. The Company's accounting policy for other-than-temporary impairment recognition requires other-than-temporary impairment charges to be recorded when it is determined that the Company is unlikely to recover its cost basis in an investment in the near-term. Factors considered in evaluating whether a decline in value is other-than-temporary include: (a) the length of time and the extent to which the fair value has been below cost; (b) the financial condition and near-term prospects of the issuer; and (c) the intent and ability of the Company to retain the investment for a period of time sufficient to allow for any anticipated recovery. In addition, for securities expected to be sold, an other-than-temporary impairment charge is recognized if the Company does not expect the fair value of a security to recover to cost or amortized cost prior to the expected date of sale.

The Company employs a systematic methodology to evaluate declines in fair value below the book value for equity securities and other investments. The methodology utilizes a quantitative and qualitative process ensuring that available evidence concerning the declines in fair value below carrying value is evaluated in a disciplined manner. Based on that evaluation and the Company's ability and intent to hold these investments for a reasonable period of time sufficient for a recovery of fair value, the Company views the decline in market value of these investments as being temporary in accordance with the Company's impairment policy.

Goodwill and Intangibles

Goodwill and intangible assets were $824 million and $762 million at December 31, 2004 and 2003, respectively. The majority of the increase was related to the Company's acquisition of Genesis on January 9, 2004, net of amortization.

Deferred Policy Acquisition Costs

Total deferred policy acquisition costs were $1.354 billion and $1.104 billion as of December 31, 2004 and 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 $938 million and $860 million as of December 31, 2004 and 2003, respectively, net of a valuation allowance of $340 million and $800 million, respectively. Management believes it is more likely than not that the Company's net deferred tax assets 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 is the result of a decrease in deferred tax liabilities resulting from a decrease in unrealized investment gains and a reduction in the tax valuation allowance, partially offset by 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, employee benefits, net operating losses and alternative minimum tax credits.

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.

The American Jobs Creation Act of 2004 ("The Act") introduced a special one-time 85% dividends received deduction on the repatriation of certain foreign earnings to a United States taxpayer, provided certain criteria are met. The maximum amount of foreign earnings eligible for the deduction is limited to the greater of $500 or the amount shown in the Company's most recent audited financial statements filed prior to June 30, 2003 as earnings permanently reinvested outside of the United States. The Company is currently evaluating the opportunity presented by this provision and expects to complete such analysis in the first half of 2005. A reasonable estimate of the range of income tax effects of a repatriation of foreign earnings under The Act cannot be made at this time.

About the Company

Boston-based Liberty Mutual Holding Company Inc., the parent corporation of the Liberty Mutual Group of entities ("LMG" or the "Company"), is a leading global insurer and sixth largest property and casualty insurer in the U.S. based on 2003 direct written premium. As of December 31, 2004, LMG had $72.4 billion in consolidated assets and $19.6 billion in annual consolidated revenue. The company ranks 116th on the Fortune 500 list of largest corporations in the United States for 2003.

LMG offers a wide range of insurance products and services, including private passenger automobile (the company's largest line of business), homeowners, workers compensation, commercial multiple peril, commercial automobile, general liability, global specialty, group disability, assumed reinsurance, fire and surety.

The company has five reporting segments: Personal Market; Commercial Markets; Regional Agency Markets (RAM); International; and Corporate and Other (which includes Individual Life Products).

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 employs nearly 38,000 people in nearly 900 offices throughout the world. For a full description of the company's business operations, products and distribution channels please visit the Liberty Mutual's investor relations web site at www.libertymutual.com/investors.