Liberty Mutual Holding Company Inc.

First Quarter 2005

Consolidated Financial Statements

(unaudited)

Liberty Mutual Holding Company Inc.

Consolidated Statements of Income

(dollars in millions)

(Unaudited)

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
Revenues		
Premiums earned	$ 4,205	$ 3,967
Net investment income	555	502
Fee and other revenues	190	178
Net realized investment gains	21	57
Total revenues	4,971	4,704
Claims, Benefits and Expenses		
Benefits, claims and claim adjustment expenses	3,090	3,117
Insurance operating costs and expenses	1,390	1,224
Other expenses	86	81
Total claims, benefits and expenses	4,566	4,422
Income from continuing operations before income tax expense	405	282
Federal and foreign income tax expense	-	-
Income from continuing operations before discontinued operations	405	282
Discontinued operations, net of tax	(9)	2
Net income	$ 396	$ 284

See accompanying notes to the unaudited consolidated financial statements.

Liberty Mutual Holding Company Inc.

Consolidated Balance Sheets

(dollars in millions)

(Unaudited)

		March 31, 2005		December 31, 2004
Assets:				
Investments				
Fixed maturities, available for sale, at fair value (amortized cost of $35,886 and $34,279)	$	36,627	$	35,601
Equity securities, available for sale, at fair value (cost of $1,129 and $1,126)		1,797		1,802
Trading securities, at fair value (cost of $272 and $447)		262		457
Other investments		1,039		990
Short-term investments		515		687
Total investments		40,240		39,537
Cash and cash equivalents		2,329		2,590
Premium and other receivables (net of allowance of $140 and $137)		6,012		5,642
Reinsurance recoverables (net of allowance of $349 and $349)		14,424		14,209
Deferred income taxes (net of valuation allowance of $207 and $340)		1,250		938
Deferred policy acquisition costs		1,442		1,354
Goodwill and intangible assets		807		824
Prepaid reinsurance premiums		1,497		1,330
Other assets		3,785		3,572
Separate account assets		2,360		2,363
Total assets	$	74,146	$	72,359
Liabilities:				
Unpaid claims and claim adjustment expense and future policy benefits:				
Property and casualty	$	34,154	$	33,884
Life		4,633		4,802
Other policyholder funds and benefits payable		2,334		2,290
Unearned premiums		8,826		8,240
Funds held under reinsurance treaties		1,797		1,767
Short-term debt		28		253
Long-term debt		2,564		2,074
Other liabilities		8,731		7,989
Separate account liabilities		2,360		2,363
Total liabilities		65,427		63,662
Policyholders' equity:				
Unassigned equity		7,835		7,439
Accumulated other comprehensive income		884		1,258
Total policyholders' equity		8,719		8,697
Total liabilities and policyholders' equity	$	74,146	$	72,359

See accompanying notes to the unaudited consolidated financial statements.

Liberty Mutual Holding Company Inc.

Consolidated Statements of Cash Flows

(dollars in millions)

(Unaudited)

	Three Months Ended March 31, 2005	2004
Cash flows from operating activities:		
Net income from continuing operations	$405	$282
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	39	40
Realized investment gains	(21)	(57)
Undistributed private equity investment (gains) losses	(51)	(28)
Premium, other receivables, and reinsurance recoverables	(552)	(1,315)
Deferred policy acquisition costs and distribution costs	(88)	(125)
Liabilities for insurance reserves	878	2,102
Taxes payable, net of deferred	(52)	(91)
Other, net	300	41
Total adjustments	453	567
Net cash provided by operating activities	858	849
Cash flows from investing activities:		
Purchases of investments	(6,358)	(5,740)
Sales and maturities of investments	4,696	4,703
Property and equipment purchased, net	(83)	(74)
Other investing activities	268	309
Net cash from acquisitions and dispositions	30	(57)
Net cash used in investing activities	(1,447)	(859)
Cash flows from financing activities:		
Net activity in policyholder accounts	2	35
Debt financing, net	265	735
Net security lending activity and other financing activities	61	72
Net cash provided by financing activities	328	842
Net increase (decrease) in cash and cash equivalents	(261)	832
Cash and cash equivalents, beginning of year	2,590	1,999
Cash and cash equivalents, end of period	$2,329	$2,831

See accompanying notes to the unaudited consolidated financial statements

Liberty Mutual Holding Company Inc.

Consolidated Statements of Changes in Policyholders' Equity

(dollars in millions)

(Unaudited)

	Three Months Ended March 31,	
	2005	**2004**
Balance at beginning of the period	$ 8,697	$ 7,381
Net income	396	284
Other comprehensive (loss) income, net of taxes:		
Unrealized (losses) gains on securities	(362)	374
Foreign currency translation and other adjustments	(12)	(46)
Total other comprehensive (loss) income, net of taxes	(374)	328
Total comprehensive income	22	612
Balance at end of the period	$ 8,719	$ 7,993

See accompanying notes to the unaudited consolidated financial statements

LIBERTY MUTUAL HOLDING COMPANY INC.

March 31, 2005

Notes to Consolidated Financial Statements

(dollars in millions)

Unaudited

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation
The accompanying consolidated financial statements include the accounts of Liberty Mutual Holding Company Inc. and its subsidiaries (collectively "LMHC" or the "Company"). All material intercompany transactions and balances have been eliminated.

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The Company's principal estimates include (1) unpaid losses and loss expense reserves, including asbestos and environmental reserves, (2) allowance for uncollectible reinsurance and policyholder receivables, (3) other than temporary impairments to the fair value of the investment portfolio, (4) deferred acquisition costs, (5) the valuation of goodwill, and (6) the deferred tax valuation allowance. While management believes that the amounts included in the consolidated financial statements reflect their best estimates and assumptions, these amounts could ultimately be materially different from the amounts currently provided for in the consolidated financial statements.

Significant Accounting Policies
See Note 1 of the Notes to Consolidated Financial Statements included in the Company's 2004 Annual Report for a description of significant accounting policies.

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

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

	March 31, 2005	December 31, 2004
Unrealized gains on securities	$806	$1,167
Foreign currency translation adjustments	104	117
Minimum pension liability	(26)	(26)
Accumulated other comprehensive income	$884	$1,258

(2) DIVESTITURES AND DISCONTINUED OPERATIONS

Divestitures

On April 1, 2004, the Company completed the sale of its Canadian personal lines business, consisting of private passenger automobile, homeowners and personal property insurance, to Meloche Monnex, Inc., a member of TD Bank Financial Group ("Meloche Monnex"). The transaction resulted in the transfer of approximately 350,000 automobile and homeowners insurance policies and approximately $300 (C$390) in direct written premiums to Meloche Monnex. The operations were a net gain of $2 for the three months ended March 31, 2004. Neither party has disclosed the financial terms of the transaction, which the Company believes is not material to its business, financial condition or results of operations.

Discontinued Operations

In December 2004, the Company's management approved a plan to sell the pension externalization business of Seguros Genesis S.A operations. In 2005 and 2004, the results and cash flows have been accounted for as discontinued operations. In the first quarter of 2005 a majority of the net assets were transferred to the buyer. The residual balances remaining require the Spanish Insurance Authorities (DGS) approval. The Company expects to receive the approval of the DGS by the end of the second quarter 2005. The operations were a net loss of $9 for the three months ended March 31, 2005.

LIBERTY MUTUAL HOLDING COMPANY INC.

March 31, 2005

Notes to Consolidated Financial Statements

(dollars in millions)

Unaudited

(3) ACQUISITIONS AND GOODWILL

Effective January 9, 2004, the Company acquired MetLife's Spanish operations, including its non-life subsidiary, Genesis Seguros Generales, S.A., and its life subsidiary, Seguros Genesis, S.A (collectively referred to as "Genesis"). The transaction resulted in goodwill of $74.

Effective August 19, 2004, the Company acquired the insurance operations of AGF Allianz Chile S.A., resulting in goodwill of $13. The Company is in the process of finalizing the evaluation of the fair value of the acquired business. Therefore, the allocation of the purchase price is subject to refinement.

(4) REINSURANCE

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 as of March 31, 2005 and December 31, 2004) that are amortized into income using the effective interest method over the estimated settlement periods. At March 31, 2005 and December 31, 2004, the deferred gains related to these retroactive reinsurance arrangements were $961 million and $973 million, respectively, and are included in other liabilities within the consolidated balance sheets. Interest credited to the funds held balances for the three months ended March 31, 2005 and 2004 was $24 million and $22 million, respectively. Amortization of deferred gain was $12 million and $11 million for the three months ended March 31, 2005 and 2004, respectively. Reinsurance recoverables related to these transactions including experience related profit accruals were $2.209 billion and $2.219 billion as of March 31, 2005 and December 31, 2004, respectively.

(5) DEBT OUTSTANDING

Debt outstanding at March 31, 2005 and December 31, 2004 includes the following:

Short-term debt:

	2005	2004
Commercial paper	$-	$147
Revolving credit facilities	28	29
Current maturities of long-term debt	-	77
Total short-term debt	$28	$253

Long-term debt:

	2005	2004
8.20%, Surplus Notes, due 2007	$121	$121
6.75%, Notes, due 2008	15	15
5.00% Notes, due 2008	14	14
7.00% Notes, due 2008	-	-
8.00% Notes, due 2013	260	260
5.75% Notes, due 2014	500	500
8.50%, Surplus Notes, due 2025	150	150
7.87%, Surplus Notes, due 2026	250	250
7.63%, Notes, due 2028	3	3
7.00%, Notes due 2034	250	250
6.50% Notes due 2035	500	-
7.70%, Surplus Notes, due 2097	500	500
6.76% - 8.10%, Medium Term Notes, with various maturities	27	27
	2,590	2,090
Unamortized discount	(26)	(16)
Total long-term debt excluding current maturities	$2,564	$ 2,074

Short-term Debt

LIBERTY MUTUAL HOLDING COMPANY INC.

March 31, 2005

Notes to Consolidated Financial Statements

(dollars in millions)

Unaudited

The Company issues commercial paper to meet short-term operating needs. The total facility was $600 at March 31, 2005 and December 31, 2004 and is supported by a $450 line of credit facility. Commercial paper issued and outstanding at March 31, 2005 and December 31, 2004 was $0 and $147, respectively. Interest rates ranged from 2.31% to 2.87% and 1.08% to 1.16% for the three months ended March 31, 2005 and 2004, respectively.

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

On March 22, 2005, the Company issued $500 of 6.50% unsecured senior notes due 2035.

(6) BENEFIT PLANS

The net benefit costs for the three months ended March 31, 2005 and 2004 included the following components:

Three months ended March 31,	Pension Benefits		SIRP* Benefits		Postretirement Benefits	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**
Components of net periodic benefit costs:						
Service cost	$32	$31	$2	$2	$6	$4
Interest cost	43	40	3	3	9	9
Expected return on plan assets	(49)	(52)	-	-	-	-
(Gain)/loss recognized due to settlement	-	-	-	12	-	-
Amortization of unrecognized:						
Net (gain)/loss	4	-	2	1	1	-
Prior service cost	1	1	1	1	(1)	(1)
Net transition (assets)/obligations	(1)	(1)	-	-	2	2
Net periodic benefit costs	$30	$19	$8	$19	$17	$14

* The Company sponsors supplemental retirement plans to provide pension benefits above the levels provided by the pension plans without regard to the statutory earnings limitations of qualified defined benefit pension plans. The supplemental plans are unfunded.

(7) COMMITMENTS AND CONTINGENT LIABILITIES

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

The Company has been in various insurance coverage disputes with Armstrong World Industries ("Armstrong") for over twenty years relating to asbestos liabilities and insurance covering the period 1973 to 1981. The Company prevailed in a favorable arbitration ruling before an appellate panel regarding Armstrong's insurance coverage in July 2003. Armstrong filed a Chapter 11 Bankruptcy petition in the United States Bankruptcy Court for the District of Delaware in December 2000 and is still operating under the protection of Chapter 11. A declaratory judgment action, filed by Armstrong in 2002, is pending in the United States District Court for the Eastern District of Pennsylvania seeking coverage for asbestos claims under insurance policies issued to Armstrong during the period of 1973 to 1981, including, but not limited to, damages and a declaration regarding the availability, applicability and scope of alleged non-product coverage not subject to the aggregate limits of the policies. Armstrong contends that a significant portion of its asbestos liability arises from operations that would entitle Armstrong to insurance coverage under the disputed policies without regard to the aggregate limit of liability. The Pennsylvania action is currently in the initial pleading stages and inactive. In Februrary 2004 Armstrong filed, in the same Pennsylvania District Court, a Motion to Vacate the appellate arbitration award that was favorable to the Company. The Company intends to vigorously defend its position. Management believes that the ultimate liability, if any, to Armstrong will not be resolved for at least one year and very likely may not be known for several years. In the opinion of management, the outcome of these pending matters is difficult to predict and in the event of an adverse outcome, could have a material adverse effect on the Company's results of operations, financial condition and liquidity.

At March 31, 2005, the Company had unfunded capital commitments to private equity investments of $721.

At March 31, 2005, the Company had commitments to purchase various mortgage-backed securities settling subsequent to March 31, 2005, at a cost of $380 with a fair value of $380 and are included as fixed maturities in the consolidated balance sheets.