Liberty Mutual Holding Company Inc.

Fourth Quarter 2005

Consolidated Financial Statements

(unaudited)

Liberty Mutual Holding Company Inc.

Consolidated Statements of Income

(dollars in millions)

(Unaudited)

	Three Months Ended December 31,		Years Ended December 31,	
	2005	**2004**	**2005**	**2004**
Revenues				
Premiums earned	$ 4,666	$ 4,420	$ 17,631	$ 16,563
Net investment income	509	528	2,247	2,102
Net realized investment gains	144	143	523	312
Fee and other revenues	195	183	760	664
Total revenues	5,514	5,274	21,161	19,641
Claims, Benefits and Expenses				
Benefits, claims and claim adjustment expenses	3,795	3,296	14,252	13,055
Insurance operating costs and expenses	1,343	1,347	5,412	5,044
Other expenses	91	79	367	323
Total claims, benefits and expenses	5,229	4,722	20,031	18,422
Income from continuing operations before income tax expense	285	552	1,130	1,219
Federal and foreign income tax expense	32	-	91	-
Income from continuing operations before discontinued operations	253	552	1,039	1,219
Extraordinary loss, net of tax	-	(3)	-	(3)
Discontinued operations, net of tax	-	16	(12)	29
Net income	$ 253	$ 565	$ 1,027	$ 1,245

See accompanying notes to the unaudited consolidated financial statements.

Liberty Mutual Holding Company Inc.

Consolidated Balance Sheets

(dollars in millions)

(Unaudited)

	December 31, 2005	December 31, 2004
Assets:		
Investments		
Fixed maturities, available for sale, at fair value (amortized cost of $36,962 and $34,279)	$ 37,391	$ 35,601
Equity securities, available for sale, at fair value (cost of $1,154 and $1,126)	1,908	1,802
Trading securities, at fair value (cost of $13 and $447)	20	457
Other investments	1,124	990
Short-term investments	1,430	687
Total investments	41,873	39,537
Cash and cash equivalents	3,155	2,590
Premium and other receivables (net of allowance of $131 and $137)	5,976	5,642
Reinsurance recoverables (net of allowance of $324 and $349)	16,302	14,209
Deferred income taxes (net of valuation allowance of $99 and $340)	1,627	938
Deferred policy acquisition costs	1,476	1,354
Goodwill and intangible assets	810	824
Prepaid reinsurance premiums	1,224	1,330
Other assets	3,811	3,670
Separate account assets	2,570	2,363
Total assets	$ 78,824	$ 72,457
Liabilities:		
Unpaid claims and claim adjustment expense and future policy benefits:		
Property and casualty	$ 38,045	$ 33,884
Life	4,751	4,802
Other policyholder funds and benefits payable	2,491	2,290
Unearned premiums	8,454	8,240
Funds held under reinsurance treaties	1,826	1,767
Short-term debt	145	253
Long-term debt	2,555	2,074
Other liabilities	9,129	8,087
Separate account liabilities	2,570	2,363
Total liabilities	69,966	63,760
Policyholders' equity:		
Unassigned equity	8,466	7,439
Accumulated other comprehensive income	392	1,258
Total policyholders' equity	8,858	8,697
Total liabilities and policyholders' equity	$ 78,824	$ 72,457

See accompanying notes to the unaudited consolidated financial statements.

Liberty Mutual Holding Company Inc.

Consolidated Statements of Cash Flows

(dollars in millions)

(Unaudited)

	Years Ended Ended December 31, 2005	2004
Cash flows from operating activities:		
Net income from continuing operations	$ 1,039	$ 1,219
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	209	191
Realized investment gains	(523)	(312)
Undistributed private equity investment gains	(127)	(141)
Premium, other receivables, and reinsurance recoverables	(2,348)	(2,589)
Deferred policy acquisition costs and distribution costs	(122)	(246)
Liabilities for insurance reserves	4,623	5,512
Taxes payable, net of deferred	(95)	(229)
Other, net	1,050	(198)
Total adjustments	2,667	1,988
Net cash provided by operating activities	3,706	3,207
Cash flows from investing activities:		
Purchases of investments	(22,189)	(21,467)
Sales and maturities of investments	19,098	18,858
Property and equipment purchased, net	(533)	(208)
Other investing activities	(156)	(253)
Net cash from acquisitions and dispositions	(15)	(79)
Net cash used in investing activities	(3,795)	(3,149)
Cash flows from financing activities:		
Net activity in policyholder accounts	20	109
Debt financing, net	373	534
Net security lending activity and other financing actitivites	297	(146)
Net cash provided by financing activities	690	497
Net cash (used in) provided by discontinued operations	(36)	36
Net increase in cash and cash equivalents	565	591
Cash and cash equivalents, beginning of year	2,590	1,999
Cash and cash equivalents, end of year	$ 3,155	$ 2,590

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)

	Unassigned Equity	Accumulated Other Comprehensive Income	Policyholders' Equity
Balance, January 1, 2004	$ 6,194	$ 1,187	$ 7,381
Comprehensive income			
Net income	1,245	-	1,245
Other comprehensive income (loss), net of taxes:			
Unrealized gains on securities	-	189	189
Less: reclassification adjustment for gains			
and losses included in net income	-	(203)	(203)
Minimum pension liability	-	(1)	(1)
Foreign currency translation adjustments	-	86	86
Other comprehensive income, net of taxes	-	71	71
Total comprehensive income			1,316
Balance, December 31, 2004	$ 7,439	$ 1,258	$ 8,697
Comprehensive income			
Net income	1,027	-	1,027
Other comprehensive income (loss), net of taxes:			
Unrealized losses on securities	-	(171)	(171)
Less: reclassification adjustment for gains			
and losses included in net income	-	(340)	(340)
Minimum pension liability	-	(306)	(306)
Foreign currency translation adjustments	-	(49)	(49)
Other comprehensive income, net of taxes	-	(866)	(866)
Total comprehensive income			161
Balance, December 31, 2005	$ 8,466	$ 392	$ 8,858

See accompanying notes to the unaudited consolidated financial statements

LIBERTY MUTUAL HOLDING COMPANY INC.

Notes to Consolidated Financial Statements

(dollars in millions)

Unaudited

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Liberty Mutual Holding Company Inc. and its subsidiaries (collectively "LMHC" or the "Company"). Certain reclassifications have been made to the 2004 consolidated financial statements to conform with the 2005 presentation. All material intercompany transactions and balances have been eliminated.

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The Company's principal estimates include (1) unpaid losses and loss expense reserves, including asbestos 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 intangible assets, and (6) valuation allowance on deferred taxes. 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 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:

	2005	2004
Unrealized gains on securities	$ 656	$ 1,167
Foreign currency translation adjustments	68	117
Minimum pension liability	(332)	(26)
Accumulated other comprehensive income	$ 392	$ 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. 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. The Company completed the disposition in December 2005. The operations were a net gain of $0 and a net loss of $12 for the three months and year ended December 31, 2005, respectively.

(3) ACQUISITIONS AND GOODWILL

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

Effective August 19, 2004, the Company acquired 100% of the outstanding shares of AGF Allianz Chile S.A., a unit of France's AGF, which is in turn a division of Germany's Allianz AG. The transaction resulted in goodwill of $13. The results of operation for the acquired business are included subsequent to August 2004.

Effective April 12, 2005, the Company acquired the insurance operations of ING Seguros Generales in Chile. The transaction resulted in goodwill of $14.

LIBERTY MUTUAL HOLDING COMPANY INC.

Notes to Consolidated Financial Statements

(dollars in millions)

Unaudited

(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 as of December 31, 2005 and 2004) that are amortized into income using the effective interest method over the estimated settlement periods. During the second quarter of 2005, the Company re-estimated the amount of deferred gains and amortization related to these reinsurance agreements. At December 31, 2005 and 2004, deferred gains related to these reinsurance arrangements were $878 and $973, respectively, and are included in other liabilities within the consolidated balance sheets. Interest credited to the funds held balances for the three months and year ended December 31, 2005 was $26 and $113, respectively, as compared to $23 and $103, for the three months and year ended December 31, 2004, respectively. Deferred gain amortization for the three months and year ended December 31, 2005 was $18 and $89, respectively, as compared to $12 and $47, for the three months and year ended December 31, 2004, respectively. Reinsurance recoverables related to these transactions including experience related profit accruals were $2,211 and $2,219 as of December 31, 2005 and 2004, respectively.

(5) DEBT OUTSTANDING

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

Short-term debt:

	2005	2004
Commercial paper	$ 100	$ 147
Revolving credit facilities	35	29
Current maturities of long-term debt	10	77
Total short-term debt	$ 145	$ 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	4	14
8.00% Notes, due 2013	260	260
5.75% Notes, due 2014	500	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%, Notes due 2034	250	250
6.50%, Notes due 2035	500	-
7.697%, Surplus Notes, due 2097	500	500
7.10% - 7.86%, Medium Term Notes, with various maturities	27	27
	2,580	2,090
Unamortized discount	(25)	(16)
Total long-term debt excluding current maturities	$ 2,555	$ 2,074

Short-term Debt

The Company issues commercial paper to meet short-term operating needs. The total facility was $600 at December 31, 2005 and 2004 and is supported by a $750 line of credit facility which LMGI entered into on July 25, 2005 to replace its previous 364-day $450 revolving credit facility. Commercial paper issued and outstanding at December 31, 2005 and 2004 was $100 and $147, respectively. Interest rates ranged from 2.31% to 4.45% in 2005 and 1.08% to 2.50% in 2004.

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.

Notes to Consolidated Financial Statements

(dollars in millions)

Unaudited

On April 12, 2004, LMIC retired approximately $129 of its $250 of 8.20% Surplus Notes due 2007 and realized a loss of approximately $19. As discussed in Note 3, 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 March 23, 2004, the Company issued $500 of 5.75% unsecured senior notes due 2014 and $250 of 7.00% unsecured senior notes due 2034. Approximately $277 of the net proceeds were used to retire existing obligations.

(6) BENEFIT PLANS

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

Three months ended December 31,	Pension Benefits		SIRP* Benefits		Postretirement Benefits	
	2005	2004	2005	2004	2005	2004
Components of net periodic benefit costs:						
Service cost	$32	$31	$2	$1	$3	$5
Interest cost	43	40	3	3	7	7
Expected return on plan assets	(51)	(52)	-	-	-	-
Amortization of unrecognized:						
Net (gain)/loss	5	-	2	2	(1)	(1)
Prior service cost	1	1	-	-	(1)	(1)
Net transition (assets)/obligations	(1)	-	-	-	3	2
Net periodic benefit costs	$29	$20	$7	$6	$11	$12

Years ended December 31,	Pension Benefits		SIRP* Benefits		Postretirement Benefits	
	2005	2004	2005	2004	2005	2004
Components of net periodic benefit costs:						
Service cost	$127	$125	$9	$7	$14	$18
Interest cost	173	161	13	12	27	30
Expected return on plan assets	(201)	(208)	-	-	(1)	(1)
Curtailment (gain)/loss	-	-	-	15	-	(1)
Amortization of unrecognized:						
Net (gain)/loss	18	-	6	6	(1)	(1)
Prior service cost	3	5	2	2	(3)	(3)
Net transition (assets)/obligations	(5)	(5)	-	-	10	9
Net periodic benefit costs	$115	$78	$30	$42	$46	$51

***** 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 is inactive by agreement of the parties. In February 2004, Armstrong filed, in the same Pennsylvania District Court, a Motion to Vacate the appellate arbitration award that was favorable to the Company. In turn, the Company filed a Motion to Confirm the Appellate Panel's Award. 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 December 31, 2005, the Company had unfunded capital commitments to private equity, commercial mortgages and energy investments of $1,072.

At December 31, 2005, the Company had commitments to purchase various mortgage-backed securities settling in 2006, at a cost of $120 with a fair value of $121 and are included as fixed maturities in the consolidated balance sheet.