Liberty Mutual Holding Company Inc.

Second Quarter 2006

Consolidated Financial Statements

(unaudited)

Liberty Mutual Holding Company Inc.

Consolidated Statements of Income

(dollars in millions)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	**2005**	**2006**	**2005**
Revenues				
Premiums earned	$ 5,180	$ 4,332	$ 9,846	$ 8,537
Net investment income	634	593	1,194	1,148
Fee and other revenues	192	180	389	370
Net realized investment gains	44	185	69	206
Total revenues	6,050	5,290	11,498	10,261
Claims, Benefits and Expenses				
Benefits, claims and claim adjustment expenses	3,957	3,132	7,454	6,222
Insurance operating costs and expenses	1,514	1,429	2,969	2,819
Other expenses	96	99	188	185
Total claims, benefits and expenses	5,567	4,660	10,611	9,226
Income from continuing operations before income tax expense	483	630	887	1,035
Federal and foreign income tax expense	160	127	272	127
Income from continuing operations before discontinued operations	323	503	615	908
Discontinued operations, net of tax	-	(3)	-	(12)
Net income	$ 323	$ 500	$ 615	$ 896

See accompanying notes to the unaudited consolidated financial statements.

Liberty Mutual Holding Company Inc.

Consolidated Balance Sheets

(dollars in millions)

(Unaudited)

	June 30, 2006	December 31, 2005
Assets:		
Investments		
Fixed maturities, available for sale, at fair value (amortized cost of $39,204 and $36,962)	$ 38,284	$ 37,391
Equity securities, available for sale, at fair value (cost of $1,542 and $1,154)	2,278	1,908
Trading securities, at fair value (cost of $14 and $13)	22	20
Other investments	1,487	1,124
Short-term investments	1,109	1,430
Total investments	43,180	41,873
Cash and cash equivalents	2,517	3,155
Premium and other receivables (net of allowance of $104 and $131)	6,668	5,976
Reinsurance recoverables (net of allowance of $348 and $324)	16,347	16,302
Deferred income taxes (net of valuation allowance of $107 and $99)	2,016	1,627
Deferred policy acquisition costs	1,644	1,476
Goodwill and intangible assets	829	810
Prepaid reinsurance premiums	1,501	1,224
Property, plant and equipment, net	1,612	1,109
Other assets	2,884	2,702
Separate account assets	2,641	2,570
Total assets	$ 81,839	$ 78,824
Liabilities:		
Unpaid claims and claim adjustment expense and future policy benefits:		
Property and casualty	$ 38,553	$ 38,045
Life	5,307	4,751
Other policyholder funds and benefits payable	2,587	2,491
Unearned premiums	9,610	8,454
Funds held under reinsurance treaties	1,829	1,826
Short-term debt	250	145
Long-term debt	2,434	2,555
Other liabilities	9,899	9,129
Separate account liabilities	2,641	2,570
Total liabilities	73,110	69,966
Policyholders' equity:		
Unassigned equity	9,081	8,466
Accumulated other comprehensive (loss) income	(352)	392
Total policyholders' equity	8,729	8,858
Total liabilities and policyholders' equity	$ 81,839	$ 78,824

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)

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Balance at beginning of the period	$ 8,858	$ 8,697
Net income	615	896
Other comprehensive (loss) income, net of taxes:		
Unrealized (losses) gains on securities	(814)	64
Foreign currency translation and other adjustments	70	(69)
Total other comprehensive loss, net of taxes	(744)	(5)
Total comprehensive (loss) income	(129)	891
Balance at end of the period	$ 8,729	$ 9,588

See accompanying notes to the unaudited consolidated financial statements

Liberty Mutual Holding Company Inc.

Consolidated Statements of Cash Flows

(dollars in millions)

(Unaudited)

	Six Months Ended Ended June 30, 2006	2005
Cash flows from operating activities:		
Net income from continuing operations	$ 615	$ 908
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	136	103
Realized investment gains	(69)	(206)
Undistributed private equity investment gains	(122)	(60)
Premium, other receivables, and reinsurance recoverables	(734)	(719)
Deferred policy acquisition costs	(143)	(71)
Liabilities for insurance reserves	2,274	1,357
Taxes payable, net of deferred	36	(76)
Other, net	(369)	511
Total adjustments	1,009	839
Net cash provided by operating activities	1,624	1,747
Cash flows from investing activities:		
Purchases of investments	(10,099)	(10,065)
Sales and maturities of investments	7,887	8,829
Property and equipment purchased, net	(621)	(121)
Other investing activities	177	184
Net cash from acquisitions and dispositions	-	15
Net cash used in investing activities	(2,656)	(1,158)
Cash flows from financing activities:		
Net activity in policyholder accounts	42	5
Debt financing, net	(16)	266
Net security lending activity and other financing actitivites	368	59
Net cash provided by financing activities	394	330
Net cash provided by discontinued operations	-	33
Net (decrease) increase in cash and cash equivalents	(638)	952
Cash and cash equivalents, beginning of period	3,155	2,590
Cash and cash equivalents, end of period	$ 2,517	$ 3,542

See accompanying notes to the unaudited consolidated financial statements

(dollars in millions)

(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. Certain reclassifications have been made to the 2005 consolidated financial statements to conform with the 2006 presentation.

Significant Accounting Policies
See Note 1 of the Notes to Consolidated Financial Statements included in the Company's 2005 Annual Report for a description of significant accounting policies.

Adoption of New Accounting Standards
Effective January 1, 2006, the Company adopted FASB Statement of Position No. FAS 115-1 and FAS 124-1, Meaning of Other-Than-Temporary Impairments and Its Application to Certain Investments ("FSP FAS 115-1 and FAS 124-1"), which provides guidance on determining whether investment impairment is other-than-temporary regardless of the intent to sell and when a security is impaired due to fluctuations in interest rates. The adoption of the Statement did not have a material impact on the Company's results of operations, financial condition or liquidity.

Effective April 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123(R), *Share-Based Payments* (SFAS 123(R)). The Company has elected to continue to measure its awards at their intrinsic value. Compensation cost related to these plans is determined in accordance with plan formulas and recorded ratably over the years the employee service is provided. The adoption of SFAS 123(R) did not impact the Company's financial position or results of operation.

Future Adoption of New Accounting Standards
In June 2006 the Financial Accounting Standards Board issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. The Company is required to adopt FIN 48 effective January 1, 2007. The Company is in the process of evaluating the impact of adoption.

Accumulated Other Comprehensive Income
Other comprehensive income consists primarily 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:

	June 30, 2006	**December 31, 2005**
Unrealized (losses) gains on securities	$(158)	$656
Foreign currency translation adjustments	138	68
Minimum pension liability	(332)	(332)
Accumulated other comprehensive (loss) income	$(352)	$392

(2) DISCONTINUED 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 loss of $3 and $12 for the three months and six months ended June 30, 2005, respectively.

(3) ACQUISITIONS AND GOODWILL

On January 9, 2006, the Company acquired a commercial office building adjacent to the Company's headquarters for approximately $482. The building is included in property, plant and equipment in the accompanying consolidated balance sheet.

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

(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 June 30, 2006, and December 31, 2005) that are amortized into income using the effective interest method over the estimated settlement periods. At June 30, 2006, and December 31, 2005, deferred gains related to these reinsurance arrangements were $852 and $878, respectively, and are included in other liabilities within the consolidated balance sheets. Interest credited to the funds held balances for the three months and six months ended June 30, 2006, was $27 and $52, respectively, as compared to $37 and $61, for the three months and six months ended June 30, 2005, respectively. Amortization of the deferred gain for the three months and six months ended June 30, 2006, was $14 and $30, respectively, as compared to $46 and $58 for the three months and six months ended June 30, 2005, respectively. Reinsurance recoverables related to these transactions including experience related profit accruals were $2,195 and $2,211 as of June 30, 2006, and December 31, 2005, respectively.

On June 21, 2006, LMIC entered into a multi-year property catastrophe reinsurance agreement with Mystic Re Ltd. ("Mystic Re"), a Cayman Islands domiciled reinsurer, to provide $200 of additional reinsurance coverage for LMIC and its affiliates, in the event of a Northeast hurricane. The reinsurance agreement is fully collateralized by proceeds received by Mystic Re from the issuance of catastrophe bonds, and provides coverage for hurricane related losses from Washington, D.C. to Maine for the 2006-2008 hurricane seasons. The reinsurance limit is proportionally available, based on industry insured losses between $30,000 and $40,000 in the covered area, as reported by Property Claim Services ("PCS"), and is exhausted with the full $200 available, in the event of PCS reported industry insured losses of $40,000. The Company has not recorded any recoveries under this program. Mystic Re has no other reinsurance in force.

(dollars in millions)

(5) DEBT OUTSTANDING

Debt outstanding at June 30, 2006, and December 31, 2005, includes the following:

Short-term debt:

	2006	2005
Commercial paper	$91	$100
Revolving credit facilities	38	35
Current maturities of long-term debt	121	10
Total short-term debt	$250	$145

Long-term debt:

	2006	2005
8.20% Surplus Notes, due 2007	$ -	$121
6.75% Notes, due 2008	15	15
5.00% Notes, due 2008	4	4
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	500
7.697% Surplus Notes, due 2097	500	500
7.10 % - 7.86% Medium Term Notes, with various maturities	27	27
	2,459	2,580
Unamortized discount	(25)	(25)
Total long-term debt excluding current maturities	$2,434	$ 2,555

Short-term Debt

The Company issues commercial paper to meet short-term operating needs. The total facility was $600 as of June 30, 2006, and December 31, 2005, and is supported by a $750 line of credit facility. Commercial paper issued and outstanding as of June 30, 2006 and December 31, 2005, was $91 and $100, respectively. Interest rates ranged from 4.43% to 5.50% and 2.31% to 3.13% for the six months ended June 30, 2006, and 2005, respectively.

Long-term Debt

Payments of interest and principal of the surplus notes are expressly subordinate to all policyholder claims and other obligations of Liberty Mutual Insurance Company ("LMIC"). Accordingly, interest and principal payments are contingent upon prior approval of the Commissioner of Insurance of the Commonwealth of Massachusetts.

(dollars in millions)

(6) BENEFIT PLANS
The net benefit costs for the three and six months ended June 30, 2006, and 2005, included the following components:

Three months ended June 30,	Pension Benefits		Supplemental* Pension Benefits		Postretirement Benefits	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
Components of net periodic benefit costs:						
Service cost	$39	$32	$2	$2	$6	$1
Interest cost	46	43	4	3	7	4
Expected return on plan assets	(50)	(49)	-	-	(1)	-
(Gain)/loss recognized due to settlement	-	-	-	-	-	-
Amortization of unrecognized:						
Net (gain)/loss	14	5	2	2	1	-
Prior service cost	-	1	1	1	(1)	(1)
Net transition (assets)/obligations	(1)	(2)	-	-	2	2
Net periodic benefit costs	$48	$30	$9	$8	$14	$6

Six months ended June 30,	Pension Benefits		Supplemental* Pension Benefits		Postretirement Benefits	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
Components of net periodic benefit costs:						
Service cost	$76	$65	$5	$5	$10	$7
Interest cost	91	86	7	7	14	14
Expected return on plan assets	(98)	(98)	-	-	(1)	(1)
(Gain)/loss recognized due to settlement	-	-	-	-	-	-
Amortization of unrecognized:						
Net (gain)/loss	28	8	4	3	1	-
Prior service cost	1	2	1	1	(2)	(2)
Net transition (assets)/obligations	(3)	(3)	-	-	4	5
Net periodic benefit costs	$95	$60	$17	$16	$26	$23

***** 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.

The Company previously disclosed in its financial statements for the year ended December 31, 2005, that it expected to contribute $150 to the qualified pension plans in 2006. As of June 30, 2006, the Company contributed $161 and expects to contribute $171 to the qualified pension plans in 2006.

(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 February 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 has filed a cross motion seeking to confirm the award. Both motions remain pending at this time. On February 23, 2005, the federal District Court in the Eastern District of Pennsylvania denied confirmation of Armstrong's Bankruptcy Plan of Reorganization. Armstrong unsuccessfully appealed that ruling, and following an amendment to Armstrong's proposed Plan of Reorganization, a second hearing was held in the Federal District Court for the Eastern District of Pennsylvania commencing on May 23, 2006. The hearing was concluded on July 11, 2006, and the matter is now under advisement with the court. A ruling is expected in August 2006, and if Armstrong prevails, they may be expected to emerge from bankruptcy in the Fall of 2006. 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.

As of June 30, 2006, the Company had unfunded capital commitments to private equity, commercial mortgages and energy investments of $1,263.

As of June 30, 2006, the Company had commitments to purchase various mortgage-backed securities and corporate and municipal securities settling subsequent to June 30, 2006, at a cost of $144 with a fair value of $143 and at a cost of $95 with a fair value of $96, respectively. They are included as fixed maturities in the consolidated balance sheets.