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

Year Ended December 31, 2005

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, 2005 and 2004. 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 2005 Consolidated Financial Statements (unaudited), Fourth Quarter 2005 Financial Supplement and First, Second, and Third Quarter 2005 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.

Index

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 purchase and sale of nontraditional products and related disclosures; unusual loss activity resulting from adverse weather conditions, including storms, hurricanes, hail, snowfall and winter conditions; repatriation of foreign earnings; 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 and the Company's unaudited financial statements.

Three Months Ended December 31, 2005 - Consolidated Results of Operations

- Revenues for the three months ended December 31, 2005 were $5.514 billion, an increase of $240 million or 4.6% over the same period in 2004.

- Net income for the three months ended December 31, 2005 was $253 million, a decrease of $312 million or 55.2% from the same period in 2004. Results in the quarter include $352 million of after-tax losses related to the 2005 hurricanes.

- Cash flow from operations for the three months ended December 31, 2005 was $552 million, a decrease of $120 million or 17.9% from the same period in 2004.

- The combined ratio before catastrophes[1], net incurred losses attributable to prior years[2] and discount accretion for the three months ended December 31, 2005 was 92.8%, an increase of 1.1 points over the same period in 2004. Including the impact of catastrophes, net incurred losses attributable to prior years and discount accretion, the Company's combined ratio increased 7.3 points to 105.6% in 2005.

Twelve Months Ended December 31, 2005 - Consolidated Results of Operations

- Revenues for the twelve months ended December 31, 2005 were $21.161 billion, an increase of $1.520 billion or 7.7% over the same period in 2004.

- Net income for the twelve months ended December 31, 2005 was $1.027 billion, a decrease of $218 million or 17.5% from the same period in 2004. Results year-to-date include $949 million of after-tax catastrophes losses related to the 2005 hurricanes and $132 million of after-tax incurred losses related to the completion of the Company's biennial ground-up asbestos reserve study.

- Cash flow from operations for the twelve months ended December 31, 2005 was $3.706 billion, an increase of $518 million or 16.2% over the same period in 2004.

- The combined ratio before catastrophes, net incurred losses attributable to prior years and discount accretion for the twelve months ended December 31, 2005 was 94.2%, a decrease of 0.8 points from the same period in 2004. Including the impact of catastrophes, net incurred losses attributable to prior years and discount accretion, the Company's combined ratio increased 2.8 points to 105.7% in 2005.

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[1] Catastrophes, net of reinstatement premium and including the reversal of $12 million and $110 million in the quarter and year-to-date, respectively, of profit sharing on external reinsurance (accrued in 2004 and the first half of 2005), exclude losses related to the Company's reinsurance assumed lines (assumed voluntary reinsurance and reinsurance assumed through Lloyd's Syndicate 4472) except for losses related to hurricanes Charley, Frances, Ivan and Jeanne ("2004 hurricanes") and hurricanes Katrina, Rita and Wilma ("2005 hurricanes"). In addition, losses related to the 2005 hurricanes and 2004 hurricanes are net of the Company's reasonable assumption of expected catastrophe activity (defined as "net catastrophe reinsurance premium earned"). After-tax amounts are presented net of a 35% marginal tax rate.

[2] Net incurred losses attributable to prior years is defined as incurred losses attributable to prior years (excluding prior year losses related to the 2004 hurricanes) including both earned premium attributable to prior years and amortization of retroactive reinsurance gains and excluding discount accretion.

Financial Condition as of December 31, 2005

- Total assets increased to $78.824 billion as of December 31, 2005, an increase of $6.367 billion or 8.8% over December 31, 2004.

- Policyholders' equity was $8.858 billion as of December 31, 2005, an increase of $161 million or 1.9% over December 31, 2004.

- After-tax net unrealized gains on fixed maturities, as of December 31, 2005 were $279 million, a decrease of $580 million or 67.5% from December 31, 2004.

- Statutory surplus as regards policyholders for the combined operations of Liberty Mutual Insurance Company ("LMIC") and its U.S. affiliates was $9.869 billion, an increase of $1.130 billion or 12.9% over December 31, 2004.

- The consolidated debt-to-capital ratio including accumulated other comprehensive income ("AOCI") as of December 31, 2005 was 23.4%, an increase of 2.3 points over December 31, 2004. Excluding AOCI, the consolidated debt-to-capital ratio was 24.2%, an increase of 0.4 points over December 31, 2004.

Other 2005 4th Quarter Highlights

Asbestos Study Update

- In the third quarter of 2005, the Company, in conjunction with its own internal review, engaged an independent actuarial firm to conduct a comprehensive, ground-up review of its June 30, 2005 asbestos reserves. The external review resulted in an indicated reserve that was approximately $60 million above the Company's carried reserves as of September 30, 2005. The primary area of difference is in the IBNR estimate, which is for policyholders that have no reported claims as of the date of the analysis. The Company will not adjust its asbestos reserves for any difference between the independent actuarial firm's estimate and the Company's carried reserves, as both estimates are well within the range of reasonableness. In the third quarter of 2005, the Company strengthened reserves by $203 million, which was approximately $50 million above the point estimate of the Company's internal actuaries and reflects management's best estimate of the reserve requirement.

Hurricane Katrina Update

- The Company's after-tax catastrophe losses incurred related to Hurricane Katrina, net of reinsurance and including reinstatement premiums, were approximately $77 million and $602 million for the three and twelve months ended December 31, 2005, respectively. Catastrophe losses in the quarter and year-to-date include the reversal of $8 million and $72 million, respectively, of after-tax profit sharing on external reinsurance accrued in 2004 and the first half of 2005. In addition, losses in the quarter and year-to-date are net of $36 million and $95 million, respectively, of the Company's reasonable after-tax assumption of expected catastrophe activity (defined as "net catastrophe reinsurance premium earned"). The increase in the quarter primarily reflects higher losses and ceded reinstatement premium from the Company's International operations. The Company's estimate is based on claims reported to date, modeled losses, anticipated demand surge, industry loss estimates and the Company's reinsurance coverage. Moreover, the Company has additional unused reinsurance protection for its domestic businesses from a corporate property catastrophe reinsurance treaty, which covers approximately 90% of subject losses up to $600 million in excess of $500 million of direct domestic property losses (excluding automobile) in the affected states. As of December 31, 2005, the Company's domestic operations had approximately $300 million of unused reinsurance limit available to respond to Hurricane Katrina. The Company also has other reinsurance programs relating to particular risks or specific lines of business.

Hurricane Rita Update

- The Company's after-tax catastrophe losses incurred related to Hurricane Rita, net of reinsurance and including reinstatement premiums, were approximately $65 million and $137 million for the three and twelve months ended December 31, 2005, respectively.

Hurricane Wilma Update

- The Company's after-tax catastrophe losses incurred related to Hurricane Wilma, net of reinsurance and including reinstatement premiums, were approximately $210 million for the three and twelve months ended December 31, 2005.

Redomestication of Liberty Mutual Fire Insurance Company

- On December 22, 2005, Liberty Mutual Fire Insurance Company ("LMFIC") changed its state of domicile from Massachusetts to Wisconsin. The primary reason for this redomestication was to improve LMFIC's operating efficiency through reduced "retaliatory" premium taxes.

Other

Real Estate Transaction

- On January 8, 2006 the Company completed the purchase of a commercial office building adjacent to its corporate headquarters for approximately $481 million. The Company currently occupies approximately 16% of the office space. The remainder of the office space is fully leased and occupied.

Rating Actions

- On January 25, 2006, A.M. Best Co. affirmed the A (Excellent) financial strength rating of LMIC and its related property/casualty companies and upgraded the financial strength rating of Liberty Life Assurance Co. to A (Excellent) from A- (Excellent). The outlook for all these ratings remains stable.

Legal and Regulatory Matters

- The Company has received subpoenas and other requests for information from insurance, governmental and enforcement authorities as part of the on-going investigation of the insurance industry. As the sixth largest property and casualty insurer in the United States based on 2004 direct written premium, the Company expects that it may receive additional subpoenas or requests for information and be named in additional civil suits as the investigations continue.

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 including reinsurance assumed, and audit and retrospectively rated premium related to loss sensitive policies less reinsurance ceded. In addition, the majority of workers compensation premium is adjusted to the "booked as billed" method through the Corporate & Other segment. "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	**2005**	**2004**	**Change**	**2005**	**2004**	**Change**
Private passenger automobile	$1,258	$1,295	(2.9%)	$5,433	$5,622	(3.4%)
Workers compensation	1,000	852	17.4	4,093	3,667	11.6
Homeowners	398	373	6.7	1,579	1,480	6.7
Commercial multiple peril / Fire	367	349	5.2	1,448	1,324	9.4
Commercial automobile	260	246	5.7	1,102	1,037	6.3
International local businesses [1]	267	223	19.7	970	816	18.9
LIU[2] reinsurance	122	149	(18.1)	757	810	(6.5)
General liability	175	162	8.0	687	793	(13.4)
LIU[2] third party	175	90	94.4	514	351	46.4
Group disability	86	84	2.4	343	335	2.4
LIU[2] first party	58	65	(10.8)	195	263	(25.9)
Surety	48	38	26.3	195	142	37.3
Assumed voluntary reinsurance	10	20	(50.0)	82	121	(32.2)
Other	228	163	39.9	678	560	21.1
Total net written premium	$4,452	$4,109	8.3%	$18,076	$17,321	4.4%

[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	**2005**	**2004**	**Change**	**2005**	**2004**	**Change**
Personal Market	$1,188	$1,209	(1.7%)	$5,133	$5,337	(3.8%)
Commercial Markets	906	816	11.0	3,550	3,558	(0.2)
Agency Markets	1,221	1,158	5.4	5,423	4,918	10.3
International	955	848	12.6	3,740	3,388	10.4
Corporate and Other	182	78	133.3	230	120	91.7
Total net written premium	$4,452	$4,109	8.3%	$18,076	$17,321	4.4%

Net written premium for the three and twelve months ended December 31, 2005 was $4.452 billion and $18.076 billion, respectively, representing increases of $343 million or 8.3% and $755 million or 4.4% over the same periods in 2004. Significant changes by major line of business include:

- Private passenger automobile net written premium decreased $37 million and $189 million in the quarter and year-to-date, respectively. Net written premium in both periods reflects Agency Markets' re-underwriting efforts, expanded rating tiers and non-renewal of certain classes of business along with lower average domestic premium per policy in the Company's Personal Market segment. The lower average written premium per policy reflects a reduction in involuntary market (assigned risk) policies, a shift in state mix and a general improvement in the quality of the risks underwritten. The decrease year-to-date was further impacted by the conversion of six-month term policies to twelve-month term policies on the PruPac[1] business, partially offset by growth in International's Local Businesses operations and new business growth and rate increases from Personal Market operations in both periods.
- Workers compensation net written premium increased $148 million and $426 million in the quarter and year-to-date, respectively. The increase in both periods reflects an increase in Agency Markets' net written premium, primarily due to an increase in new business and exposure growth on existing accounts at Summit Holdings Southeast Inc. and affiliates ("Summit"). Summit is a mono-line workers compensation carrier with operations primarily in Florida. Both periods also reflect an increase in retention and new business growth in Commercial Markets, partially offset by a decline in rate levels due to more competitive market conditions.
- Homeowners net written premium increased $25 million and $99 million in the quarter and year-to-date, respectively, primarily due to rate increases and new business growth in the Company's Personal Market segment. The increase in both periods was partially offset by ceded reinstatement premium related to the 2005 hurricanes.
- Commercial multiple peril / fire net written premium increased $18 million and $124 million in the quarter and year-to-date, respectively, primarily due to improved retention and exposure growth in Agency Markets' Regional Companies, partially offset by modest rate decreases due to a more competitive environment.
- International local businesses net written premium, excluding private passenger automobile net written premium, increased $44 million and $154 million in the quarter and year-to-date, respectively. The increase in both periods reflects organic growth in Europe and Latin America and the acquisition of the Chilean operations of ING Chile Seguros Generales in the second quarter of 2005.
- General liability net written premium increased $13 million in the quarter and decreased $106 million year-to-date. The decrease year-to-date was primarily driven by the loss of a large National Market account in the second quarter of 2005 due to more aggressive price competition.

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

- LIU third party net written premium increased $85 million and $163 million, in the quarter and year-to-date, respectively, primarily due to a reduction in the Company's utilization of reinsurance as compared to prior periods and the establishment of an inland marine specialty program in the third quarter of 2005.
- Other net written premium increased $65 million and $118 million in the quarter and year-to-date, respectively, primarily due to increased annuity sales and life structured settlement business.

More detailed explanations of the changes in net written premium by line of business are included in the related discussion of financial results for each strategic business unit.

For a fuller 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.

Results of Operations – Consolidated

$ in Millions	Three Months Ended December 31, 2005	Three Months Ended December 31, 2004	Three Months Ended December 31, Change	Twelve Months Ended December 31, 2005	Twelve Months Ended December 31, 2004	Twelve Months Ended December 31, Change
Revenues	$5,514	$5,274	4.6%	$21,161	$19,641	7.7%
PTOI before catastrophes, net incurred losses attributable to prior years and discount accretion	$708	$683	3.7%	$2,563	$2,171	18.1%
Catastrophes[1,2]:						
- 2005 hurricanes	(541)	-	NM	(1,460)	-	NM
- 2004 hurricanes	24	41	(41.5)	(38)	(512)	(92.6)
- All other	(28)	(57)	(50.9)	(145)	(185)	(21.6)
Net incurred losses attributable to prior years:						
- Asbestos[3]	-	(3)	(100.0)	(210)	(3)	NM
- Pollution	(3)	(232)	(98.7)	(5)	(316)	(98.4)
- All other[4]	5	3	66.7	(2)	(150)	(98.7)
Discount accretion[5]	(24)	(26)	(7.7)	(96)	(98)	(2.0)
Pre-tax operating income	141	409	(65.5)	607	907	(33.1)
Realized investment gains, net	144	143	0.7	523	312	67.6
Federal and foreign income tax (expense)	(32)	-	NM	(91)	-	NM
Discontinued operations, net of tax	-	16	(100.0)	(12)	29	NM
Extraordinary items, net of tax	-	(3)	100.0	-	(3)	100.0
Net income	$253	$565	(55.2%)	$1,027	$1,245	(17.5%)

1 Catastrophe losses from assumed reinsurance lines (assumed voluntary reinsurance and reinsurance assumed through Lloyd's Syndicate 4472) relating to the 2005 hurricanes and the 2004 hurricanes have been separately identified in the tables above given the significance of these events. All other catastrophe losses from assumed reinsurance lines have not been separately identified or normalized given the expected volatility associated with these coverages. Losses related to the 2005 hurricanes for the three and twelve months ended December 31, 2005 include the reversal of $12 million and $110 million, respectively, of profit sharing on external reinsurance accrued in 2004 and the first half of 2005. In addition, losses related to the 2005 hurricanes and 2004 hurricanes are net of the Company's reasonable assumption of expected catastrophe activity (defined as "net catastrophe reinsurance premium earned"). Catastrophe losses include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

2 Assumed catastrophe losses related to the 2005 hurricanes are reported net of estimated net catastrophe reinsurance premium earned of $55 million and $146 million for the three and twelve months ended December 31, 2005, respectively. Assumed catastrophe losses related to the 2004 hurricanes are reported net of estimated net catastrophe reinsurance premium earned of zero and $164 million for the comparable periods of 2004.

3 Net of allowance for doubtful accounts of $17 million for the three and twelve months ended December 31, 2005, and $1 million and $5 million for the comparable periods of 2004.

4 Net of earned premium attributable to prior years of $46 million and $86 million for the three and twelve months ended December 31, 2005, respectively, and $38 million and $93 million for the comparable periods of 2004. Net of amortization of deferred gains on retroactive reinsurance of $19 million and $97 million for the three and twelve months ended December 31, 2005, respectively, and $11 million and $46 million for the comparable periods of 2004.

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

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

Revenues for the three and twelve months ended December 31, 2005 were $5.514 billion and $21.161 billion, respectively, representing increases of $240 million and $1.520 billion over the same periods in 2004. 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, 2005 was $4.666 billion and $17.631 billion, respectively, representing increases of $246 million and $1.068 billion over the same periods in 2004. The increases in both periods reflect new business growth, improved customer retention across many of the Company's major segments, and modest rate increases in the Company's auto and homeowners lines of business, partially offset by a more challenging commercial lines pricing environment. These increases were partially offset by higher ceded reinstatement premium earned and the reversal of profit sharing accrued as a result of third and fourth quarter catastrophe activity.

Net investment income for the three and twelve months ended December 31, 2005 was $509 million and $2.247 billion, respectively, representing a $19 million decrease and a $145 million increase over the same periods in 2004. The decrease in net investment income for the quarter is driven by increased investment expenses and lower dividend income, partially offset by a $45 million increase in interest income. The increase in investment expenses is primarily due to increases in short and long term variable compensation incurred and allocated to the investment function; increased staffing; and general cost increases. The year-to-date improvement also reflects an increase in interest income, primarily due to a higher invested asset base as investment income continues to benefit from significant cash flow from operations and the proceeds from the Company's March 2004 and 2005 debt offerings. Partially offsetting the increase in interest income in both periods were lower average portfolio yields, due in part to the re-investment of the proceeds from securities sold or maturing into lower yielding tax-exempt holdings. Both periods were also favorably impacted by an increase in limited partnership and limited liability company gains of $10 million and $67 million in the quarter and year-to-date, respectively, related to private equity investments.

Net realized investment gains for the three and twelve months ended December 31, 2005 were $144 million and $523 million, respectively, representing an increase of $1 million and $211 million over the same periods in 2004. The change in the quarter primarily reflects a $77 million increase in equities driven by a $106 million gain recognized from the sale of a private equity investment, partially offset by a $111 million decrease in fixed maturity net gains. The improvement year-to-date reflects higher gains in equities and other investments of $167 million and $177 million, respectively, partially offset by a decrease in fixed maturities gains of $133 million. Included in these amounts were an increase of $13 million and a decrease of $17 million in impairment losses in the quarter and year-to-date, respectively, versus the comparable periods in 2004.

Fee and other revenues for the three and twelve months ended December 31, 2005 were $195 million and $760 million, respectively, representing increases of $12 million and $96 million over the same periods in 2004. The improvement in both periods primarily reflects increases in fee and other revenues from the production and sale of oil and gas from Liberty Energy Holdings, LLC ("Liberty Energy").

Claims, benefits and expenses for the three and twelve months ended December 31, 2005 were $5.229 billion and $20.031 billion, respectively, representing increases of $507 million and $1.609 billion over the same periods in 2004. The change in the quarter primarily reflects $511 million of higher catastrophe losses and a $70 million increase in policyholder benefits primarily related to growth in annuity sales and life structured settlement business, partially offset by a $228 million decrease in incurred losses attributable to prior years[1]. The increase in catastrophe losses in the quarter reflects $287 million of losses related to Hurricane Wilma and $232 million of additional losses related to Hurricanes Katrina and Rita. The balance of the increase in the quarter reflects higher amortization of deferred acquisition costs primarily related to business growth and higher commission expenses, personnel costs and other general expenses. These increases were partially offset by a decrease in variable incentive compensation expenses, an increase in foreign exchange gains, a general improvement in non-catastrophe current year underwriting results (primarily in Personal Market's auto and homeowners lines of business) and a decrease in incurred losses attributable to prior years. The decrease in incurred losses attributable to prior years was primarily related to better than anticipated loss trends in the auto and homeowners lines of business and lower prior year development related to pollution and other lines. In the fourth quarter of 2004, an independent actuarial firm completed its comprehensive review of the Company's pollution reserves. Accordingly, the Company increased its net incurred losses attributable to prior years pollution reserves by $232 million in the fourth quarter of 2004.

[1] Incurred losses attributable to prior years is defined as net incurred losses attributable to prior years (excluding prior year losses related to the 2004 hurricanes) excluding earned premium attributable to prior years and including discount accretion and amortization of retroactive reinsurance gains.

The increase in year-to-date claims, benefits and expenses reflects an increase in catastrophe losses, partially offset by a decrease in incurred losses attributable to prior years. Catastrophe losses increased $729 million year-to-date, primarily due to approximately $1.403 billion of losses related to the 2005 hurricanes. In addition, year-to-date expenses associated with the amortization of deferred acquisition costs increased $131 million over the same period in 2004 due to business growth and the acquisition of PruPac. Upon acquisition, the PruPac deferred policy acquisition costs were written off against the negative goodwill, in accordance with GAAP accounting, which resulted in less amortization of deferred acquisition cost in 2004 as compared to 2005. The remainder of the increase on a year-to-date basis reflects business growth and general cost increases, including higher personnel costs and interest expense, partially offset by lower variable incentive compensation, a general improvement in non-catastrophe current year underwriting results primarily in Personal Market's auto and homeowners lines of business and a decrease in incurred losses attributable to prior years. The $261 million decrease in prior year incurred losses reflects better than anticipated loss trends in the auto and homeowners lines of business and lower prior year development related to pollution and other lines of business, partially offset by the completion of the Company's biennial ground-up asbestos reserve study in the third quarter of 2005. This study increased asbestos reserves by $203 million, which is approximately $50 million above the point estimate of the Company's internal actuaries and reflects management's best estimate of the reserve requirement.

	Three Months Ended December 31,			Twelve Months Ended December 31,		
CONSOLIDATED	**2005**	**2004**	**Change (Points)**	**2005**	**2004**	**Change (Points)**
Combined ratio before catastrophes, net incurred losses attributable to prior years and discount accretion						
Claims and claim adjustment expense ratio	67.2%	66.7%	0.5	68.3%	69.5%	(1.2)
Underwriting expense ratio	25.2	24.7	0.5	25.7	25.1	0.6
Dividend ratio	0.4	0.3	0.1	0.2	0.4	(0.2)
Subtotal	92.8	91.7	1.1	94.2	95.0	(0.8)
Catastrophes[1]:						
- 2005 hurricanes	12.3	-	12.3	8.7	-	8.7
- 2004 hurricanes	(0.5)	(1.0)	0.5	0.2	3.2	(3.0)
- All other	0.6	1.4	(0.8)	0.8	1.2	(0.4)
Net incurred losses attributable to prior years:						
- Asbestos	-	0.1	(0.1)	1.2	-	1.2
- Pollution	0.1	5.5	(5.4)	-	2.0	(2.0)
- All other	(0.2)	-	(0.2)	-	0.9	(0.9)
Discount accretion	0.5	0.6	(0.1)	0.6	0.6	-
Total combined ratio[2]	105.6%	98.3%	7.3	105.7%	102.9%	2.8

[1] Catastrophe losses from assumed reinsurance lines (assumed voluntary reinsurance and reinsurance assumed through Lloyd's Syndicate 4472) relating to the 2005 hurricanes and the 2004 hurricanes have been separately identified in the tables above given the significance of these events. All other catastrophe losses from assumed reinsurance lines have not been separately identified or normalized given the expected volatility associated with these coverages. Losses related to the 2005 hurricanes for the three and twelve months ended December 31, 2005 include the reversal of $12 million and $110 million, respectively, of profit sharing on external reinsurance accrued in 2004 and the first half of 2005. Losses related to the 2005 hurricanes and the 2004 hurricanes are reported net of the Company's reasonable assumption of expected catastrophe activity (defined as "net catastrophe reinsurance premium earned"). Catastrophe losses include the impact of accelerated earned catastrophe premiums and earned 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 (primarily related to the Company's involuntary market servicing carrier operations) 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.

The consolidated combined ratio before catastrophes, net incurred losses attributable to prior years and discount accretion for the three and twelve months ended December 31, 2005 was 92.8% and 94.2%, respectively, representing an increase of 1.1 points and a decrease of 0.8 points versus the comparable periods in 2004. The increase in the quarter reflects a 0.5 point increase in the claims and claim adjustment expense ratio due to higher loss trends of International's LIU Reinsurance line of business (excluding the 2005 hurricane losses) and higher loss ratios related to International's establishment of an inland marine specialty program in the third quarter of 2005, partially offset by actual and expected favorable loss trends in Personal Market's auto and homeowners lines of business. The increase in the expense ratio in the quarter primarily reflects higher commission expenses, personnel costs and other general expenses in Personal Market, partially offset by a decrease in variable incentive compensation. The decrease year-to-date reflects a 1.2 point decrease in the claims and claim adjustment expense ratio due to actual and expected favorable loss trends in Personal Market's auto and homeowners lines of business, partially offset by higher loss trends of International's LIU Reinsurance line of business (excluding the 2005 hurricane losses). The increase in the year-to-date expense ratio is due primarily to the increase in amortization of deferred policy acquisition costs and other general expenses, partially offset by a decrease in variable incentive compensation and a higher earned premium base.

Including the impact of catastrophes, net incurred losses attributable to prior years and discount accretion, the total combined ratio was 105.6% for the quarter and 105.7% year-to-date, representing increases of 7.3 and 2.8 points, respectively, versus the same periods in 2004. Catastrophe losses increased 12.0 and 5.3 points in the quarter and year-to-date, respectively, primarily due to the 2005 hurricanes. Additionally, the combined ratio in the quarter had a 5.7 point reduction in net incurred losses attributable to prior years due to the increase in pollution reserves in 2004. The year-to-date combined ratio reflects a 1.7 point reduction in net incurred losses attributable to prior years due to lower asbestos and environmental increases in 2005 compared to 2004 and better than anticipated loss trends in the auto and homeowners lines of business

PTOI for the three and twelve months ended December 31, 2005 was $141 million and $607 million, respectively, representing decreases of $268 million and $300 million over the same periods in 2004.

Federal and foreign income tax expense for the three and twelve months ended December 31, 2005 was $32 million and $91 million, respectively, representing increases of $32 million and $91 million over the same periods in 2004. The Company's effective tax rates for the three and twelve months ended December 31, 2005 were 11% and 8%, respectively, compared to 0% in the same periods of 2004. The Company's effective tax rate for the three months ended December 31, 2005 was below the statutory tax rate of 35% primarily due to tax preferenced investment income, an increase in the tax benefit available from foreign losses recorded in the third quarter of 2005 and the recognition of a foreign tax credit carryback claim. The effective tax rate for the twelve months ended December 31, 2005 was below the statutory tax rate of 35% primarily due to the reduction in the domestic valuation allowance to zero in the second quarter of 2005, partially offset by an $18 million tax expense for planned repatriation of profits pursuant to the American Jobs Creation Act of 2004 and a $15 million tax expense for prior year taxes resulting from a judicial decision in Brazil.

Net income for the three and twelve months ended December 31, 2005 was $253 million and $1.027 billion, respectively, representing decreases of $312 million and $218 million over the same periods in 2004. Results from discontinued operations in 2005 reflect a loss on the 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”). Results from discontinued operations in 2004 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. The extraordinary loss in 2004 was due to purchase price adjustments associated with the PruPac acquisition.

PERSONAL MARKET

(1) Overview – Personal Market

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

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2005**	**2004**	**Change**	**2005**	**2004**	**Change**
Private passenger automobile	$835	$869	(3.9%)	$3,706	$3,992	(7.2%)
Homeowners and other	353	340	3.8	1,427	1,345	6.1
Total net written premium	$1,188	$1,209	(1.7%)	$5,133	$5,337	(3.8%)

Net written premium for the three and twelve months ended December 31, 2005 was $1.188 billion and $5.133 billion, respectively, representing decreases of $21 million and $204 million from the same periods in 2004. The decrease in net written premium in both periods reflects higher ceded reinstatement premium attributable to the 2005 hurricanes and lower average written premium per auto policy, partially offset by new business growth. The decrease on a year-to-date basis is further impacted by the conversion of PruPac six-month term auto policies to twelve-month term policies during 2004, partially offset by rate increases.

Private passenger automobile net written premium for the three and twelve months ended December 31, 2005 was $835 million and $3.706 billion, respectively, representing decreases of $34 million and $286 million from the same periods in 2004. The decrease in net written premium in both periods reflects lower average written premium per policy, partially offset by new business growth. Policies in force increased approximately 1% over December 31, 2004. Excluding the impact of involuntary market (assigned risk) policies, voluntary policies in force increased 2%. The lower average written premium per policy reflects a reduction in involuntary market policies, a shift in state mix and a general improvement in the quality of the risks underwritten. The decrease on a year-to-date basis is further impacted by the aforementioned PruPac policy conversion, partially offset by rate increases.

Homeowners and other net written premium for the three and twelve months ended December 31, 2005 was $353 million and $1.427 billion, respectively, representing increases of $13 million and $82 million over the same periods in 2004. The increase in both periods is primarily due to rate increases and new business growth, partially offset by higher ceded reinstatement premium attributable to the 2005 hurricanes. Homeowners policies in force increased approximately 3% over December 31, 2004.

(2) Results of Operations – Personal Market

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2005**	**2004**	**Change**	**2005**	**2004**	**Change**
Revenues	$1,378	$1,388	(0.7%)	$5,435	$5,378	1.1%
PTOI before catastrophes, net incurred losses attributable to prior years and discount accretion	$224	$253	(11.5%)	$897	$805	11.4%
Catastrophes[1]:						
- 2005 hurricanes	(122)	-	NM	(386)	-	NM
- 2004 hurricanes	25	50	(50.0)	25	(269)	NM
- All other	(30)	(11)	172.7	(114)	(91)	25.3
Net incurred losses attributable to prior years:						
- Asbestos	-	-	-	-	-	-
- Pollution	-	-	-	-	-	-
- All other[2]	-	38	(100.0)	107	29	NM
Discount accretion	-	-	-	-	-	-
Pre-tax operating income[3]	97	330	(70.6)	529	474	11.6
Realized investment gains, net	-	-	-	-	-	-
Federal and foreign income tax (expense)	(34)	(116)	(70.7)	(185)	(166)	11.4
Discontinued operations, net of tax	-	6	(100.0)	-	18	(100.0)
Extraordinary items, net of tax	-	(3)	100.0	-	(3)	100.0
Net income	$63	$217	(71.0%)	$344	$323	6.5%

1 Catastrophe losses include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.
2 Net of earned premium attributable to prior years of zero and ($4) million for the three and twelve months ended December 31, 2005, respectively, and zero for the comparable periods of 2004.
3 In the first quarter of 2005, the Company changed its methodology for allocating qualified pension expenses. Historically, qualified pension expenses were recorded in the Corporate and Other segment but are now allocated to each of the Company's business units. Results for 2004 reflect this reclassification.
NM = Not meaningful

Revenues for the three and twelve months ended December 31, 2005 were $1.378 billion and $5.435 billion, respectively, representing a decrease of $10 million and an increase of $57 million over the same periods in 2004. 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, 2005 was $1.294 billion and $5.108 billion, respectively, representing a decrease of $1 million and an increase of $88 million over the same periods in 2004. The decrease in the quarter is primarily due to higher ceded reinstatement premium attributable to the 2005 hurricanes, partially offset by new business growth. The increase on a year-to-date basis is primarily due to rate increases and new business growth, partially offset by higher ceded reinstatement premium attributable to the 2005 hurricanes.

Net investment income for the three and twelve months ended December 31, 2005 was $69 million and $269 million, respectively, representing decreases of $9 million and $30 million from the same periods in 2004. The decrease in both periods is primarily due to lower investment yields.

Claims, benefits and expenses for the three and twelve months ended December 31, 2005 were $1.281 billion and $4.906 billion, respectively, representing increases of $223 million and $2 million versus the same periods in 2004. The increase in both periods reflects an increase in catastrophe losses, commission expenses, personnel costs and other general expenses, partially offset by improved current year underwriting results related to favorable loss trends in the auto and homeowners lines of business.

Catastrophe activity in the quarter reflects $109 million of losses related to Hurricane Wilma, partially offset by a $5 million reduction in the ultimate loss estimate related to Hurricanes Katrina and Rita and a $25 million reduction in the ultimate loss estimate for the 2004 hurricanes. The fourth quarter of 2004 reflects favorable incurred loss development attributable to prior years related to better than anticipated claims frequency trends in the auto and homeowners lines of business. Results on a year-to-date basis also reflect an increase in the amortization of deferred acquisition costs primarily due to the acquisition of PruPac in 2003. Upon acquisition, the PruPac deferred policy acquisition costs were written off against the negative goodwill, in accordance with GAAP accounting, which resulted in less amortization of deferred acquisition cost in 2004 as compared to 2005. These increases year-to-date were offset by favorable current accident year losses (excluding catastrophes) and an increase in favorable incurred losses attributable to prior years, reflecting better than anticipated loss trends in the auto and homeowners lines of business.

	Three Months Ended December 31,			**Twelve Months Ended December 31,**		
PERSONAL MARKET	**2005**	**2004**	**Change (Points)**	**2005**	**2004**	**Change (Points)**
Combined ratio before catastrophes, net incurred losses attributable to prior years and discount accretion						
Claims and claim adjustment expense ratio[1]	61.9%	65.0%	(3.1)	64.4%	68.6%	(4.2)
Underwriting expense ratio[1]	25.7	21.2	4.5	23.1	20.9	2.2
Dividend ratio	-	-	-	-	0.2	(0.2)
Subtotal	87.6	86.2	1.4	87.5	89.7	(2.2)
Catastrophes[2]:						
- 2005 hurricanes	9.4	-	9.4	7.6	-	7.6
- 2004 hurricanes	(1.9)	(3.9)	2.0	(0.5)	5.3	(5.8)
- All other	2.3	0.9	1.4	2.2	1.8	0.4
Net incurred losses attributable to prior years:						
- Asbestos	-	-	-	-	-	-
- Pollution	-	-	-	-	-	-
- All other	-	(2.9)	2.9	(2.1)	(0.6)	(1.5)
Discount accretion	-	-	-	-	-	-
Total combined ratio[3]	97.4%	80.3%	17.1	94.7%	96.2%	(1.5)

1 Personal Market reclassified certain integration expenses in 2004 related to the PruPac acquisition between the claims and claim adjustment expense ratio and the underwriting expense ratio. The impact was a 1.5 point reclassification from the underwriting expense ratio to the claims and claim adjustment expense ratio for the quarter. There was no impact year-to-date.

2 Catastrophe losses include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

3 In the first quarter of 2005, the Company changed its methodology for allocating qualified pension expenses. Historically, qualified pension expenses were recorded in the Corporate and Other segment but are now allocated to each of the Company's business units. Results for 2004 reflect this reclassification.

Personal Market's combined ratio before catastrophes and net incurred losses attributable to prior years for the three and twelve months ended December 31, 2005 was 87.6% and 87.5% in the quarter and year-to-date, respectively, representing an increase of 1.4 points and a decrease of 2.2 points versus the same periods in 2004. The decrease in the claims and claim adjustment expense ratio in both periods reflects actual and expected favorable current year loss trends in the auto and homeowners lines of business. The increase in the expense ratio in both periods reflects higher commission expenses, personnel costs and other general expenses. The year-to-date expense ratio was further impacted by higher amortization of deferred acquisition costs related to the PruPac acquisition.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio was 97.4% and 94.7%, respectively, representing an increase of 17.1 points and a decrease of 1.5 points versus the same periods in 2004. Catastrophe losses increased 12.8 and 2.2 points in the quarter and year-to-date, respectively, primarily due to the 2005 hurricanes. Conversely, year-to-date results reflect an increased benefit from higher favorable prior year development in the auto and homeowners lines of business related to better than anticipated loss trends, which the Company recognized in the third quarter of 2005. In the fourth quarter of 2004, the Company recognized similar favorable development that did not recur in the fourth quarter of 2005.

PTOI for the three and twelve months ended December 31, 2005 was $97 million and $529 million, respectively, representing a decrease of $233 million and an increase of $55 million over the same periods in 2004.

Federal and foreign income tax expense for the three and twelve months ended December 31, 2005 was $34 million and $185 million, respectively, representing a decrease of $82 million and an increase of $19 million over the same periods in 2004.

Net income for the three and twelve months ended December 31, 2005 was $63 million and $344 million, respectively, representing a decrease of $154 million and an increase of $21 million over the same periods in 2004. Results from discontinued operations in 2004 primarily reflect the Company's Canadian personal lines business, which was sold to Meloche Monnex on April 1, 2004. The extraordinary loss in 2004 was due to purchase price adjustments 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	**2005**	**2004**	**Change**	**2005**	**2004**	**Change**
Business Market	$366	$338	8.3%	$1,513	$1,409	7.4%
National Market	299	274	9.1	1,177	1,291	(8.8)
Liberty Mutual Property	62	58	6.9	218	208	4.8
Group Market	86	84	2.4	343	335	2.4
Other Markets	93	62	50.0	299	315	(5.1)
Total net written premium	$906	$816	11.0%	$3,550	$3,558	(0.2%)

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

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2005**	**2004**	**Change**	**2005**	**2004**	**Change**
Workers compensation	$503	$423	18.9%	$1,972	$1,885	4.6%
Commercial automobile	96	93	3.2	412	388	6.2
General liability	100	90	11.1	389	504	(22.8)
Group disability / life	86	84	2.4	343	335	2.4
Commercial multiple peril / Fire	54	44	22.7	188	178	5.6
Assumed voluntary reinsurance	10	20	(50.0)	82	121	(32.2)
Other	57	62	(8.1)	164	147	11.6
Total net written premium	$906	$816	11.0%	$3,550	3,558	(0.2%)

Net written premium for the three and twelve months ended December 31, 2005 was $906 million and $3.550 billion, respectively, representing an increase of $90 million and a decrease of $8 million from the same periods in 2004. The 11% increase in the quarter is primarily due to higher retention of expiring accounts versus the prior year across all significant market segments. The improved retention was most significant in the workers compensation line of business. Additionally, other markets increased $31 million in the quarter due primarily to an increase in estimated workers compensation premiums associated with a voluntary pool. Year-to-date premiums decreased $8 million or 0.2% as higher retention in 2005 was offset by modest rate declines and the loss of a significant general liability account.

Results of Operations – Commercial Markets

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2005**	**2004**	**Change**	**2005**	**2004**	**Change**
Revenues	$1,183	$1,165	1.5%	$4,391	$4,359	0.7%
PTOI before catastrophes and incurred losses attributable to prior years	$141	$164	(14.0%)	$465	$426	9.2%
Catastrophes[1, 2]:						
- 2005 hurricanes	(28)	-	NM	(135)	-	NM
- 2004 hurricanes	3	(7)	NM	(10)	(84)	(88.1)
- All other	7	(3)	NM	(2)	(8)	(75.0)
Net incurred losses attributable to prior years:						
- Asbestos	-	-	-	-	-	-
- Pollution	-	-	-	-	-	-
- All other[3]	(37)	(5)	NM	(110)	(41)	168.3
Discount accretion[4]	(16)	(16)	-	(63)	(63)	-
Pre-tax operating income[5]	70	133	(47.4)	145	230	(37.0)
Realized investment gains, net	-	-	-	-	-	-
Federal and foreign income tax (expense)	(24)	(47)	(48.9)	(50)	(81)	(38.3)
Discontinued operations, net of tax	-	-	-	-	-	-
Net income	$46	$86	(46.5%)	$95	$149	(36.2%)

1 Catastrophe losses from assumed voluntary reinsurance relating to the 2005 hurricanes and the 2004 hurricanes have been separately identified in the tables above given the significance of these events. All other catastrophe losses from assumed voluntary reinsurance have not been separately identified given the expected volatility associated with property-reinsurance coverage. Catastrophe losses include the impact of reinstatement premiums.

2 Assumed catastrophe losses related to the 2005 hurricanes are reported net of net catastrophe premium earned of $3 million and $16 million for the three and twelve months ended December 31, 2005, respectively. Assumed catastrophe losses related to the 2004 hurricanes are reported net of net catastrophe premium earned of zero and $15 million for the three and twelve months ended December 31, 2004, respectively.

3 Net of earned premium attributable to prior years of $59 million and $80 million for the three and twelve months ended December 31, 2005, respectively, and $28 million and $93 million for the comparable periods of 2004. Earned premium attributable to prior years includes zero and $15 million for the three and twelve months ended December 31, 2005, respectively, and $4 million and $42 million for the comparable periods of 2004, related to reinsurance excluding captive arrangements. Net of amortization of deferred gains on retroactive reinsurance of $9 million and $48 million for the three and twelve months ended December 31, 2005, respectively, and $6 million and $21 million for the comparable periods of 2004.

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.

5 In the first quarter of 2005, the Company changed its methodology for allocating pension expenses. Historically, pension expenses were recorded in the Corporate and Other segment but are now allocated to each of the Company's business units. Results for 2004 reflect this reclassification.

NM= Not meaningful

Revenues for the three and twelve months ended December 31, 2005 were $1.183 billion and $4.391 billion, respectively, representing increases of $18 million and $32 million over the same periods in 2004. 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, 2005 was $951 million and $3.469 billion, respectively, representing an increase of $28 million in the quarter and year-to-date. Changes in net earned premium reflect an increase in new business growth partially offset by a modest decline in rate levels over the last twelve months due to more competitive market conditions. Net earned premium was also impacted by changes in earned premium attributable to prior years, which increased $31 million in the quarter and decreased $13 million year-to-date versus comparable periods of 2004.

Net investment income for the three and twelve months ended December 31, 2005 was $137 million and $546 million, respectively, representing decreases of $7 million and $14 million from the same periods in 2004. The decrease reflects lower investment yields partially offset by a higher invested asset base and continued positive cash flow from operations.

Fee and other revenues for the three and twelve months ended December 31, 2005 were $95 million and $376 million, respectively, representing a decrease of $3 million and an increase of $18 million over the same periods in 2004. The year-to-date increase over prior year was primarily due to higher fee revenues from involuntary market servicing carrier operations.

Claims, benefits and expenses for the three and twelve months ended December 31, 2005 were $1.113 billion and $4.246 billion, respectively, representing increases of $81 million and $117 million over the same periods in 2004. Incurred losses attributable to prior years increased $63 million in the quarter, due to a $21 million increase in prior year losses related to involuntary market liabilities and an increase in exposures. The balance of the increase in claims, benefits and expenses for the quarter reflects general cost increases and an increase in premium taxes, as results in 2004 benefited from guaranty fund credits. Catastrophe activity in the quarter reflects $20 million of losses related to Hurricane Wilma, while losses related to Hurricanes Katrina and Rita remained relatively unchanged from the third quarter. Year-to-date claims, benefits and expenses increased due to a $56 million increase in incurred losses attributable to prior years, primarily related to a $32 million increase in involuntary market liabilities and general workers compensation strengthening. Catastrophe losses increased $31 million year-to-date, due to the impact of the 2005 hurricanes. The remaining increase in claims, benefit and expenses represents general costs increases partially offset by lower dividends resulting from the Company’s re-evaluation of its estimate of dividend reserves in 2005.

	Three Months Ended December 31,			Twelve Months Ended December 31,		
COMMERCIAL MARKETS	**2005**	**2004**	**Change (Points)**	**2005**	**2004**	**Change (Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	78.3%	78.3%	-	80.1%	81.4%	(1.3)
Underwriting expense ratio	18.9	16.8	2.1	19.0	18.4	0.6
Dividend ratio	0.0	0.0	-	(0.6)	0.1	(0.7)
Subtotal	97.2	95.1	2.1	98.5	99.9	(1.4)
Catastrophes[1]:						
- 2005 hurricanes	3.4	0.0	3.4	4.4	0.0	4.4
- 2004 hurricanes	(0.3)	0.8	(1.1)	0.3	2.8	(2.5)
- All other	(0.8)	0.4	(1.2)	0.1	0.3	(0.2)
Net incurred losses attributable to prior years:						
- Asbestos	-	-	-	-	-	-
- Pollution	-	-	-	-	-	-
- All other	4.1	0.7	3.4	3.3	1.1	2.2
Discount accretion	2.0	1.9	0.1	2.1	2.1	-
Total combined ratio[2]	105.6%	98.9%	6.7	108.7%	106.2%	2.5

1 Catastrophe losses from assumed voluntary reinsurance relating to the 2005 hurricanes and the 2004 hurricanes have been separately identified in the tables above given the significance of these events. All other catastrophe losses from assumed voluntary reinsurance have not been separately identified given the expected volatility associated with property-reinsurance coverage. Catastrophe losses include the impact of reinstatement premiums.

2 In the first quarter of 2005, the Company changed its methodology for allocating pension expenses. Historically, pension expenses were recorded in the Corporate and Other segment but are now allocated to each of the Company's business units. Results for 2004 reflect this reclassification.

Commercial Markets' combined ratio before catastrophes, net incurred losses attributable to prior years and discount accretion for the three and twelve months ended December 31, 2005 was 97.2% and 98.5%, respectively, representing an increase of 2.1 points in the quarter and a decrease of 1.4 points year-to-date versus the same periods in 2004. The increase in the quarter reflects a 2.1 point increase in the underwriting expense ratio due to general cost increases and an increase in premium taxes, as results in 2004 benefited from guaranty fund credits. The decrease year-to-date was driven by a 1.3 point decrease in the claims and claim adjustment expense ratio due to general underwriting improvements and a lower dividend ratio as the Company re-evaluated its estimate for dividends reserves in 2005.

Including the impact of catastrophes, net incurred losses attributable to prior years and discount accretion, the total combined ratio was 105.6% and 108.7%, in the quarter and year-to-date, respectively, representing increases of 6.7 and 2.5 points versus the same periods in 2004. Catastrophes increased 1.1 and 1.7 points in the quarter and year-to-date, respectively, primarily due to higher losses and ceded reinstatement premium related to the 2005 hurricanes. Net incurred losses attributable to prior years increased 3.4 and 2.2 points in the quarter and year-to-date, respectively, primarily due to assumed involuntary market pools' liabilities.

PTOI for the three and twelve months ended December 31, 2005, was $70 million and $145 million, respectively, representing decreases in PTOI of $63 million and $85 million versus the same periods in 2004.

Federal and foreign income tax expense for the three and twelve months ended December 31, 2005 was $24 million and $50 million, respectively, representing decreases of $23 million and $31 million versus the same periods in 2004.

Net income for the three and twelve months ended December 31, 2005 was $46 million and $95 million, respectively, representing decreases of $40 million and $54 million versus the same periods in 2004.

AGENCY MARKETS

(1) Overview – Agency Markets

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

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2005**	**2004**	**Change**	**2005**	**2004**	**Change**
Regional Companies	$788	$757	4.1%	$3,334	$3,182	4.8%
Wausau[1]	265	275	(3.6)	1,122	1,013	10.8
Summit	120	88	36.4	772	581	32.9
Surety	48	38	26.3	195	142	37.3
Total net written premium	$1,221	$1,158	5.4%	$5,423	$4,918	10.3%

1 Includes the operations of Business Solutions Group.

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

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2005**	**2004**	**Change**	**2005**	**2004**	**Change**
Commercial Lines						
Workers compensation total	$440	$405	8.6%	$2,202	$1,859	18.5%
- Wausau	179	185	(3.2)	835	725	15.2
- Summit	120	88	36.4	772	581	32.9
- All other	141	132	6.8	595	553	7.6
Commercial multiple peril	294	271	8.5	1,174	1,062	10.5
Commercial automobile	164	153	7.2	690	649	6.3
General liability	58	57	1.8	228	225	1.3
Surety	48	38	26.3	195	142	37.3
Other	43	43	-	167	159	5.0
Subtotal	$1,047	$967	8.3%	$4,656	$4,096	13.7%
Personal Lines						
Private passenger automobile	$102	$113	(9.7%)	$467	$518	(9.8%)
Homeowners	64	67	(4.5)	268	270	(0.7)
Other	8	11	(27.3)	32	34	(5.9)
Subtotal	$174	$191	(8.9%)	$767	$822	(6.7%)
Total net written premium	$1,221	$1,158	5.4%	$5,423	$4,918	10.3%

Net written premium for the three and twelve months ended December 31, 2005 was $1.221 billion and $5.423 billion, respectively, representing increases of $63 million and $505 million over the same periods in 2004. The growth in both periods reflects an increase in workers compensation premium, largely due to an increase in new business and exposure growth on existing Summit accounts, partially offset by the impact of state mandated rate decreases in Florida. Workers compensation premium at Wausau decreased in the quarter due to modest rate decreases and lower retention levels while year-to-date Wausau workers compensation premium increased due to new business and higher audit and retrospectively rated policy premiums. The balance of the increases in both periods also reflects improved retention levels and new business growth across most commercial lines, partially offset by a more challenging rate environment and a decrease in private passenger automobile net written premium due to Agency Markets' re-underwriting efforts, expanded rating tiers and non-renewal of certain classes of business.

(2) Results of Operations – Agency Markets

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2005**	**2004**	**Change**	**2005**	**2004**	**Change**
Revenues	$1,513	$1,372	10.3%	$5,776	$5,136	12.5%
PTOI before catastrophes, incurred losses attributable to prior years and discount accretion	$135	$138	(2.2%)	$544	$453	20.1%
Catastrophes[1]:						
- 2005 hurricanes	(30)	-	NM	(80)	-	NM
- 2004 hurricanes	2	1	100.0	2	(16)	NM
- All other	(5)	(23)	(78.3)	(29)	(66)	(56.1)
Net incurred losses attributable to prior years:						
- Asbestos	-	-	-	-	-	-
- Pollution	-	-	-	-	-	-
- All other[2]	40	3	NM	95	(4)	NM
Discount accretion	(5)	(7)	(28.6)	(22)	(23)	(4.3)
Pre-tax operating income[3]	137	112	22.3	510	344	48.3
Realized investment gains, net	3	1	200.0	9	2	NM
Federal and foreign income tax expense	(49)	(39)	25.6	(182)	(121)	50.4
Discontinued operations, net of tax	-	-	-	-	-	-
Extraordinary items, net of tax	-	-	-	-	-	-
Net income	$91	$74	23.0%	$337	$225	49.8%

1 Catastrophe losses include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

2 Net of earned premium attributable to prior years of $4 million and $18 million for the three and twelve months ended December 31, 2005, respectively, and $11 million and ($6) million for the comparable periods of 2004. Net of amortization of deferred gains on retroactive reinsurance of $3 million and $16 million for the three and twelve months ended December 31, 2005, respectively, and $1 million and $7 million for the comparable periods of 2004.

3 In the first quarter of 2005, the Company changed its methodology for allocating pension expenses. Historically, pension expenses were recorded in the Corporate and Other segment but are now allocated to each of the Company's business units. Results for 2004 reflect this reclassification.

NM = Not Meaningful

Revenues for the three and twelve months ended December 31, 2005 were $1.513 billion and $5.776 billion, respectively, representing increases of $141 million and $640 million over the same periods in 2004. 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, 2005 was $1.370 billion and $5.235 billion, respectively, representing increases of $134 million and $605 million over the same periods in 2004. The growth in both periods reflects an increase in workers compensation earned premium of $91 million and $347 million over the same periods in 2004, largely due to an increase in new business and exposure growth on existing Summit accounts, partially offset by the impact of state mandated rate decreases in Florida. Workers compensation premium in both periods also reflects increased new business and audit and retrospectively rated policy premiums at Wausau. The balance of the increase in both periods reflects improved retention levels and new business growth across most commercial lines, partially offset by a more challenging rate environment and a decrease in private passenger automobile earned premium due to Agency Markets' re-underwriting efforts, expanded rating tiers and non-renewal of certain classes of business.

Net investment income for the three and twelve months ended December 31, 2005 was $117 million and $442 million, respectively, representing increases of $6 million and $25 million over the same periods in 2004. The increase reflects a higher invested asset base and continued positive cash flow from operations, partially offset by lower investment yields.

Claims, benefits and expenses for the three and twelve months ended December 31, 2005 were $1.373 billion and $5.257 billion, respectively, representing increases of $114 million and $467 million over the same periods in 2004. The change in both periods is primarily due to new business growth, higher catastrophe losses and general cost increases, partially offset by favorable incurred loss development attributable to prior years. Catastrophe losses for the quarter and year-to-date increased $10 million and $24 million, respectively, over the same periods in 2004, largely due to the 2005 hurricanes. Catastrophe activity in the quarter reflects $4 million of losses related to Hurricane Wilma and $25 million of additional losses related to Hurricanes Katrina and Rita. Incurred losses attributable to prior years in both periods improved primarily due to favorable loss trends in property and liability lines, partially offset by unfavorable development in workers compensation. Results for year-to-date incurred losses attributable to prior years were also impacted by favorable loss development in surety lines.

	Three Months Ended December 31,			**Twelve Months Ended December 31,**		
AGENCY MARKETS	**2005**	**2004**	**Change (Points)**	**2005**	**2004**	**Change (Points)**
Combined ratio before catastrophes, net incurred losses attributable to prior years and discount accretion						
Claims and claim adjustment expense ratio	66.8%	66.1%	0.7%	65.3%	65.6%	(0.3)
Underwriting expense ratio	30.8	30.4	0.4	31.4	32.1	(0.7)
Dividend ratio	1.1	1.1	-	0.9	1.0	(0.1)
Subtotal	98.7	97.6	1.1	97.6	98.7	(1.1)
Catastrophes[1]:						
- 2005 hurricanes	2.2	-	2.2	1.5	-	1.5
- 2004 hurricanes	(0.1)	(0.1)	-	-	0.3	(0.3)
- All other	0.4	1.9	(1.5)	0.6	1.4	(0.8)
Net incurred losses attributable to prior years:						
- Asbestos	-	-	-	-	-	-
- Pollution	-	-	-	-	-	-
- All other	(3.1)	(0.2)	(2.9)	(1.8)	0.2	(2.0)
Discount accretion	0.4	0.6	(0.2)	0.4	0.5	(0.1)
Total combined ratio[2]	98.5%	99.8%	(1.3%)	98.3%	101.1%	(2.8%)

1 Catastrophe losses include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

2 In the first quarter of 2005, the Company changed its methodology for allocating pension expenses. Historically, pension expenses were recorded in the Corporate and Other segment but are now allocated to each of the Company's business units. Results for 2004 reflect this reclassification.

Agency Markets' combined ratio before catastrophes, net incurred losses attributable to prior years and discount accretion for the three and twelve months ended December 31, 2005 was 98.7% and 97.6%, respectively, representing an increase of 1.1 points in the quarter and a decrease of 1.1 points year-to-date versus the same periods in 2004. The increase of 1.1 points in the quarter reflects a modest increase in the claims and claim adjustment ratio primarily due to current period workers compensation loss activity and a slightly higher expense ratio due to higher operating costs. Conversely, the year-to-date decrease of 1.1 points primarily reflects the decrease in the underwriting expense ratio as earned premium growth more than offset underwriting expense growth.

Including the impact of catastrophes, net incurred losses attributable to prior years and discount accretion, the total combined ratio was 98.5% and 98.3%, in the quarter and year-to-date, respectively, representing decreases of 1.3 and 2.8 points versus the same periods in 2004. Results in the quarter and year-to-date reflect 2.9 and 2.0 points, respectively, of reductions in net incurred losses attributable to prior years compared to the same periods in 2004. The improvement in both periods reflects favorable loss trends in property and liability lines, partially offset by unfavorable development in workers compensation. Results for year-to-date incurred losses attributable to prior years were also impacted by favorable prior year losses incurred in the surety line. Partially offsetting the favorable development of prior year losses incurred in the quarter and year-to-date was an increase in catastrophe losses of 0.7 and 0.4 points, respectively, over the same periods in 2004, due to the 2005 hurricanes.

PTOI for the three and twelve months ended December 31, 2005 was $137 million and $510 million, respectively, representing increases of $25 million and $166 million over the same periods in 2004.

Federal and foreign income tax expense for the three and twelve months ended December 31, 2005 was $49 million and $182 million, respectively, representing increases of $10 million and $61 million over the same periods in 2004.

Net income for the three and twelve months ended December 31, 2005 was $91 million and $337 million, respectively, representing increases of $17 million and $112 million over the same periods in 2004.

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	**2005**	**2004**	**Change**	**2005**	**2004**	**Change**
International Local Businesses	$595	$537	10.8%	$2,247	$1,929	16.5%
Liberty International Underwriters	360	311	15.8	1,493	1,459	2.3
Total net written premium	$955	$848	12.6%	$3,740	$3,388	10.4%

The Company's International operations provide insurance products and services through 1) Local Businesses, selling personal and small commercial lines products locally 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, professional liability, inland marine specialty, and other;
(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	**2005**	**2004**	**Change**	**2005**	**2004**	**Change**
Local Businesses – private passenger auto	$328	$314	4.5%	$1,277	$1,113	14.7%
Local Businesses – all other	267	223	19.7	970	816	18.9
LIU Reinsurance	122	149	(18.1)	757	810	(6.5)
LIU Third Party	175	90	94.4	514	351	46.4
LIU First Party	58	65	(10.8)	195	263	(25.9)
LIU Other	5	7	(28.6)	27	35	(22.9)
Total net written premium	$955	$848	12.6%	$3,740	$3,388	10.4%

Net written premium for the three and twelve months ended December 31, 2005 was $955 million and $3.740 billion, respectively, representing increases of $107 million and $352 million over the same periods in 2004. Approximately $55 million and $299 million of the increase in the quarter and year-to-date, respectively, reflect organic growth in the Company's local operations in Europe and Latin America. Included in these amounts was approximately $5 million and $33 million of written premium in the quarter and year-to-date, respectively, related to an acquisition in Chile in the second quarter of 2005. In addition, net written premium in LIU's Third Party line increased $85 million and $163 million in the quarter and year-to-date, respectively, primarily due to a reduction in the Company's utilization of reinsurance as compared to the prior periods and the establishment of an inland marine specialty program in the third quarter of 2005. Partially offsetting the increase in both periods was lower net written premium from LIU Reinsurance due primarily to $12 million and $110 million of additional reinsurance costs in the quarter and year-to-date, respectively. Reinsurance costs in both periods reflect the write-off of profit sharing previously accrued in 2004 and in the first half of 2005 as a result of the 2005 hurricane losses. Finally, LIU First Party reported net written premium decreased $7 million and $68 million in the quarter and year-to-date, respectively. The decreases in both periods reflect an increase in ceded reinstatement premiums due to the 2005 hurricanes, while the year-to-date change also reflects the impact of downward pricing pressure in the first three quarters of 2005 resulting from a more competitive environment.

(2) Results of Operations – International

	Three Months Ended December 31,			**Twelve Months Ended December 31,**		
$ in Millions	**2005**	**2004**	**Change**	**2005**	**2004**	**Change**
Revenues	$1,043	$1,003	4.0%	$3,903	$3,615	8.0%
PTOI before catastrophes, net incurred losses attributable to prior years and discount accretion	$202	$129	56.6%	$449	$414	8.5%
Catastrophes[1, 2]:						
- 2005 hurricanes	(304)	-	NM	(706)	-	NM
- 2004 hurricanes	-	-	-	(49)	(101)	(51.5)
- All other	-	(20)	(100.0)	-	(20)	(100.0)
Net incurred losses attributable to prior years:						
- Asbestos	-	-	-	-	-	-
- Pollution	-	-	-	-	-	-
- All other[3]	47	(5)	NM	57	(27)	NM
Discount accretion	-	-	-	-	-	-
Pre-tax operating (loss) income[4]	(55)	104	NM	(249)	266	NM
Realized investment (losses) gains, net	17	5	NM	29	18	61.1
Federal and foreign income tax benefit (expense)	47	(6)	NM	71	(48)	NM
Discontinued operations, net of tax	-	11	(100.0)	(12)	11	NM
Extraordinary items, net of tax	-	-	-	-	-	-
Net income (loss)	$9	$114	(92.1%)	($161)	$247	NM

1 Catastrophe losses from reinsurance assumed through Lloyd's Syndicate 4472 relating to the 2005 hurricanes and the 2004 hurricanes have been separately identified in the tables above given the significance of these events. All other catastrophe losses from assumed reinsurance lines have not been separately identified or normalized given the expected volatility associated with these coverages. Losses related to the 2005 hurricanes for the three and twelve months ended December 31, 2005 include the reversal of $12 million and $110 million, respectively, of profit sharing on external reinsurance accrued in 2004 and the first half of 2005. In addition, losses related to the 2005 hurricanes and the 2004 hurricanes are reported net of the Company's reasonable assumption of expected catastrophe activity (defined as "net catastrophe reinsurance premium earned"). Catastrophe losses include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

2 Assumed catastrophe losses related to the 2005 hurricanes are reported net of estimated net catastrophe reinsurance premium earned of $52 million and $130 million for the three and twelve months ended December 31, 2005, respectively. Year-to-date assumed catastrophe losses related to the 2004 hurricanes are reported net of estimated net catastrophe reinsurance premium earned of $149 million in 2004.

3 Net of earned premium attributable to prior years of ($17) million and ($8) million for the three and twelve months ended December 31, 2005, respectively, and ($1) million and $6 million for the comparable periods of 2004.

4 In the first quarter of 2005, the Company changed its methodology for allocating qualified pension expenses. Historically, qualified pension expenses were recorded in the Corporate and Other segment but are now allocated to each of the Company's business units. Results for 2004 reflect this reclassification.

NM = Not Meaningful

Revenues for the three and twelve months ended December 31, 2005 were $1.043 billion and $3.903 billion, respectively, representing increases of $40 million and $288 million over the same periods in 2004.

The major components of revenues include net premium earned, net investment income and realized investment gains.

Net premium earned for the three and twelve months ended December 31, 2005 was $918 million and $3.480 billion, respectively, representing increases of $8 million and $218 million over the same periods in 2004. Approximately $42 million and $303 million of the increase in the quarter and year-to-date, respectively, reflect growth in the Company's local operations in Europe and Latin America. Included in these amounts was approximately $7 million and $38 million of net premium earned in the quarter and year-to-date, respectively, related to the acquisition in Chile. In addition, net premium earned from LIU's Third Party line also increased by $78 million and $132 million in the quarter and year-to-date, respectively, consistent with the change in net written premium. These increases were partially offset by decreases in LIU's First Party and Reinsurance lines of business in the quarter and year-to-date. LIU's First Party net premium earned decreased $6 million and $70 million in the quarter and year-to-date, respectively, consistent with the change in net written premium. The reduction in LIU Reinsurance net premium earned of $114 million and $147 million in the quarter and year-to-date, respectively, is principally due to underlying changes in the exposure periods of the business written resulting from a change in business mix and the reversal of $12 million and $110 million, respectively, of profit sharing accrued in 2004 and the first half of 2005 due to catastrophe activity. LIU's Reinsurance operations' written and earned premium require significant estimation throughout the year.

Net investment income for the three and twelve months ended December 31, 2005 was $98 million and $354 million, respectively, representing increases of $20 million and $54 million over the same periods in 2004. This increase reflects a higher invested asset base and continued positive cash flow from operations, partially offset by lower investment yields.

Realized investment gains for the three and twelve months ended December 31, 2005 were $17 million and $29 million, respectively, representing increases of $12 million and $11 million versus the same periods in 2004 as a result of normal trading activity.

Claims, benefits and expenses for the three and twelve months ended December 31, 2005 were $1.081 billion and $4.123 billion, respectively, representing increases of $187 million and $792 million over the same periods in 2004. Losses related to the 2005 hurricanes added $301 million and $670 million in the quarter and year-to-date, respectively. Catastrophe activity in the three months ended December 31, 2005 included an additional $194 million of losses related to Hurricanes Katrina and Rita, while year-to-date catastrophes also reflect a $49 million increase in claims expense related to an increase in the estimate of incurred losses for the 2004 hurricanes due to the delayed reporting of losses to the LIU Reinsurance line. Current accident year claims expense in the Company's Local Businesses operations increased $29 million and $165 million in the quarter and year-to-date, respectively, due to growth in International's European and Latin American Local Businesses operations. Also contributing to the increase on a year-to-date basis was a $70 million increase in expenses primarily related to higher acquisition costs from organic growth and increased personnel costs related to business growth in the Local Businesses. Partially offsetting these increases in the quarter was a $95 million decrease in expenses, reflecting a $50 million increase in foreign exchange gains and a decrease in the amount of bad debt expense incurred. Partially offsetting these increases on a year-to-date basis was an $87 million decrease in claims expense in LIU's First Party and Other lines of business associated with the reduction in business volumes. In addition, losses attributable to prior years decreased $68 million and $98 million in the quarter and year-to-date, respectively, primarily related to the Local Businesses operations and LIU's Third Party and Reinsurance lines of business.

INTERNATIONAL	Three Months Ended December 31, 2005	2004	Change (Points)	Twelve Months Ended December 31, 2005	2004	Change (Points)
Combined ratio before catastrophes, net incurred losses attributable to prior years and discount accretion						
Claims and claim adjustment expense ratio	64.1%	57.6%	6.5	66.9%	64.1%	2.8
Underwriting expense ratio	28.9	30.4	(1.5)	29.2	29.1	0.1
Dividend ratio	-	-	-	-	-	-
Subtotal	93.0	88.0	5.0	96.1	93.2	2.9
Catastrophes[1]:						
- 2005 hurricanes	34.3	-	34.3	21.1	-	21.1
- 2004 hurricanes	-	-	-	1.4	3.2	(1.8)
- All other	-	2.3	(2.3)	-	0.6	(0.6)
Net incurred losses attributable to prior years:						
- Asbestos	-	-	-	-	-	-
- Pollution	-	-	-	-	-	-
- All other	(5.2)	0.5	(5.7)	(1.6)	0.9	(2.5)
Discount accretion	-	-	-	-	-	-
Total combined ratio[2]	122.1%	90.8%	31.3	117.0%	97.9%	19.1

1 Catastrophe losses from reinsurance assumed through Lloyd's Syndicate 4472 relating to the 2005 hurricanes and the 2004 hurricanes have been separately identified in the tables above given the significance of these events. All other catastrophe losses from assumed reinsurance lines have not been separately identified or normalized given the expected volatility associated with these coverages. Losses related to the 2005 hurricanes for the three and twelve months ended December 31, 2005 include the reversal of $12 million and $110 million, respectively, of profit sharing on external reinsurance accrued in 2004 and the first half of 2005. Losses related to the 2005 hurricanes and the 2004 hurricanes are reported net of the Company's reasonable assumption of expected catastrophe activity (defined as "net catastrophe reinsurance premium earned"). Catastrophe losses include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

2 In the first quarter of 2005, the Company changed its methodology for allocating qualified pension expenses. Historically, qualified pension expenses were recorded in the Corporate and Other segment but are now allocated to each of the Company's business units. Results for 2004 reflect this reclassification.

International's combined ratio before catastrophes, net incurred losses attributable to prior years and discount accretion for the three and twelve months ended December 31, 2005 was 93.0% and 96.1% in the quarter and year-to-date, respectively, representing increases of 5.0 and 2.9 points versus the same periods in 2004. The increase in the claims and claim adjustment expense ratio in both periods was primarily due to higher loss trends from LIU's Reinsurance line (excluding the 2005 hurricane losses) and higher loss ratios related to the establishment of an inland marine specialty program in the third quarter of 2005. This increase in the loss ratio, however, was partially offset by favorable current year results (excluding catastrophe losses) in International's Local Businesses operations and LIU First Party line. Conversely, the underwriting expense ratio decreased 1.5 points in the quarter principally due to an increase in the percentage mix of LIU Third Party business, which has a lower expense ratio than International's other lines of business.

Including the impact of catastrophes, net incurred losses attributable to prior years and discount accretion, the total combined ratio was 122.1% and 117.0%, respectively, representing increases of 31.3 and 19.1 points versus the same periods in 2004. Catastrophe losses increased 32.0 and 18.7 points in the quarter and year-to-date, respectively, primarily due to the 2005 hurricanes. Incurred losses attributable to prior years decreased 5.7 points and 2.5 points in the quarter and year-to-date, respectively, due to favorable development principally in the Local Businesses operations and LIU's Third Party and Reinsurance lines of business.

Pre-tax operating loss for the three and twelve months ended December 31, 2005 was $55 million and $249 million, respectively, representing decreases in PTOI of $159 million and $515 million versus the same periods in 2004.

Federal and foreign income tax benefit for the three and twelve months ended December 31, 2005 was $47 million and $71 million, respectively, representing increased benefits of $53 million and $119 million versus the same periods in 2004. The year-to-date income tax benefit is net of an $18 million tax charge incurred for planned repatriation of profits under the American Jobs Creation Act of 2004 and $15 million of tax expense for prior year taxes resulting from a judicial decision in Brazil.

For the three and twelve months ended December 31, 2005, International reported net income of $9 million and a net loss of $161 million, respectively, representing decreases in net income of $105 million and $408 million versus the same periods in 2004. Results from discontinued operations in the twelve months ended December 31, 2005 include losses of $12 million related to the disposal of certain pension business in Spain, which was 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: asbestos, environmental, and other toxic tort exposures, 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. In 2005, pension expense previously included in Corporate and Other was reallocated to the business segments. For consistency, 2004 has been reported reflecting the new pension expense allocation. Domestic property and casualty operations' investment income was allocated based on planned ordinary investment income returns by investment category allocated to the strategic business units. 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, Agency Markets 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 and 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. Liberty Energy generates revenue from the production and sale of oil and gas.

(2) Results of Operations – Corporate and Other

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2005**	**2004**	**Change**	**2005**	**2004**	**Change**
Revenues	$397	$346	14.7%	$1,656	$1,153	43.6%
Pre-tax operating income (loss) before catastrophes, net incurred losses attributable to prior years and discount accretion	$6	($1)	NM	$208	$73	184.9%
Catastrophes[1]:						
- 2005 hurricanes	(57)	-	NM	(153)	-	NM
- 2004 hurricanes	(6)	(3)	100.0	(6)	(42)	(85.7)
- All other	-	-	-	-	-	-
Net incurred losses attributable to prior years:						
- Asbestos[2]	-	(3)	(100.0)	(210)	(3)	NM
- Pollution	(3)	(232)	(98.7)	(5)	(316)	(98.4)
- All other[3]	(45)	(28)	60.7	(151)	(107)	41.1
Discount accretion[4]	(3)	(3)	-	(11)	(12)	(8.3)
Pre-tax operating loss[5]	(108)	(270)	(60.0)	(328)	(407)	(19.4)
Realized investment gains, net	124	137	(9.5)	485	292	66.1
Federal and foreign income tax benefit (expense)	28	208	(86.5)	255	416	(38.7)
Discontinued operations, net of tax	-	(1)	100.0	-	-	-
Extraordinary items, net of tax	-	-	-	-	-	-
Net income	$44	$74	(40.5%)	$412	$301	36.9%

1 Catastrophe losses include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.
2 Net of allowance for doubtful accounts of $17 million for the three and twelve months ended December 31, 2005, and $1 million and $5 million for the comparable periods of 2004.
3 Net amortization of deferred gains on retroactive reinsurance of $7 million and $33 million for the three and twelve months ended December 31, 2005, respectively, and $4 million and $18 million for comparable periods in 2004.
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 is included in underwriting results as the loss reserves accrete to nominal value. Asbestos settlements are discounted at 4.5%.
5 In the first quarter of 2005, the Company changed its methodology for allocating qualified pension expenses. Historically, qualified pension expenses were recorded in the Corporate and Other segment but are now allocated to each of the Company's business units. Results for 2004 reflect this reclassification.
NM = Not Meaningful

Revenues for the three and twelve months ended December 31, 2005 were $397 million and $1.656 billion, respectively, representing increases of $51 million and $503 million over the same periods in 2004. The major components of revenues include net premium earned, net investment income, net realized investment gains and losses and fee and other revenues.

Net premium earned for the three and twelve months ended December 31, 2005 was $133 million and $339 million, respectively, representing increases of $77 million and $129 million over the same periods in 2004. The increase is primarily due to increased annuity sales and structured settlement business in Individual Life and higher earned premium on internal catastrophe reinsurance programs. Internal reinsurance is provided to those domestic businesses seeking catastrophe reinsurance protection below the corporate retention.

Net investment income for the three and twelve months ended December 31, 2005 was $88 million and $636 million, respectively, representing a decrease of $29 million and an increase of $110 million over the same periods in 2004. The decrease in the quarter is driven primarily by increased investment expenses and lower dividend income, partially offset by a $45 million increase in interest income. The improvement year-to-date reflects an increase of approximately $67 million due to limited partnership gains and an increase in interest and dividend income related to a higher asset base as investment income continues to benefit from significant cash flow from operations and the proceeds from the Company's 2004 and 2005 debt offerings. Partially offsetting the increase were lower average portfolio yields, due in part to the reinvestment of the proceeds from securities sold or maturing into lower yielding tax-exempt securities.

Realized investment gains for the three and twelve months ended December 31, 2005 were $124 million and $485 million, respectively, representing a decrease of $13 million and an increase of $193 million over the same periods in 2004. The increase in year-to-date primarily reflects higher realized gains on energy and equity investments and a reduction in impairment losses over the comparable period in 2004, partially offset by a decrease in fixed maturities. The quarter to date results reflects a $106 million gain recognized on a private equity investment.

Fee and other revenues for the three and twelve months ended December 31, 2005 were $52 million and $196 million, respectively, representing increases of $16 million and $71 million over the same periods in 2004. The increase in both periods primarily reflects the sale and production of oil and gas from the subsidiary operations of Liberty Energy.

Claims, benefits and expenses for the three and twelve months ended December 31, 2005 were $381 million and $1.499 billion, respectively, representing a decrease of $98 million and an increase of $231 million over the same periods in 2004. The decrease in the quarter primarily reflects lower variable incentive compensation expenses and a decrease in the amount of incurred losses attributable to prior years as compared to the same period in 2004. In the fourth quarter of 2004, an independent actuary completed its comprehensive review of the Company's pollution reserves. Accordingly, the Company increased its net incurred losses attributable to prior year pollution reserves by $232 million in the fourth quarter of 2004. Partially offsetting these decreases in the quarter and year-to-date was an increase in catastrophe losses assumed through internal catastrophe reinsurance programs, higher interest expense related to the Company's 2005 debt issuance, and an increase in policyholder benefits related to an increase in annuity sales and life structured settlement business. Corporate reported an increase in catastrophe losses of $69 million and $141 million in the quarter and year-to-date, respectively, largely due to the impact of the 2005 hurricanes. The year-to-date result was further impacted by an increase in net incurred losses attributable to prior years primarily due to the completion of the Company's third quarter ground-up asbestos reserve study. In the third quarter of 2005, the Company completed its biennial ground-up asbestos study and increased its asbestos reserves by $203 million, which is approximately $50 million above the point estimate of the Company's internal actuaries and reflects management's best estimate of the reserve requirement.

Pre-tax operating loss for the three and twelve months ended December 31, 2005 was $108 million and $328 million, respectively, representing decreases of $162 million and $79 million over the same periods in 2004.

Corporate and Other recognized a Federal and foreign income tax benefit for the three and twelve months ended December 31, 2005 of $28 million and $255 million, respectively, representing decreases of $180 million and $161 million over the comparable periods in 2004. See the Consolidated Section for a discussion of taxes.

Net income for the three and twelve months ended December 31, 2005 was $44 million and $412 million, respectively, representing a decrease of $30 million and an increase of $111 million over the same periods in 2004.

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. A relatively safe and stable income stream is achieved by maintaining a broadly based portfolio of investment grade bonds. These 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 commercial mortgages and other real estate financing investments, non-investment-grade bonds and syndicated bank loans, common and preferred stock, private equity 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 a 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, which meets on a regular basis to review and consider investment activities, tactics and new investment classes. In addition, the Company has an experienced team of investment personnel 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, 2005 and 2004:

$ in Millions	**As of December 31, 2005**		**As of December 31, 2004**	
Invested Assets by Type	**Market Value**	**% of Total**	**Market Value**	**% of Total**
Fixed maturities, available for sale, at fair value	$37,391	89.3%	$35,601	90.0%
Equity securities, available for sale, at fair value	1,908	4.6	1,802	4.6
Trading securities, at fair value	20	0.0	457	1.2
Limited partnerships and limited liability companies	1,040	2.5	881	2.2
Short-term investments	1,430	3.4	687	1.7
Other investments	84	0.2	109	0.3
Total invested assets	$41,873	100.0%	$39,537	100.0%

Total invested assets as of December 31, 2005 were $41.873 billion, a $2.336 billion or 5.9% increase over December 31, 2004. In addition, cash and cash equivalents increased $565 million or 21.8% over December 31, 2004. The increase in invested assets was primarily due to strong cash flow from operations of $3.706 billion and approximately $486 million of net proceeds from Liberty Mutual Group Inc.'s ("LMGI") March 22, 2005 debt offering. The Company has elected to temporarily maintain significant cash balances, which will be tactically deployed in subsequent months. A portion of these cash balances are being held in anticipation of future liquidity requirements stemming from hurricane related losses and the January 2006 purchase of an office building adjacent to the Company's corporate headquarters.

Fixed maturities as of December 31, 2005 were $37.391 billion, which represents an increase of $1.790 billion or 5.0% over December 31, 2004. The improvement reflects the aforementioned increase in the amount of available cash to invest, partially offset by lower net unrealized gains in the portfolio. Net unrealized gains on fixed maturities as of December 31, 2005 were $429 million, an $893 million or 67.5% decrease from December 31, 2004 primarily due to the increase in market interest rates.

Equity securities available for sale as of December 31, 2005 were $1.908 billion, a $106 million or 5.9% increase from December 31, 2004. The increase reflects net market appreciation and an increase of $34 million related to the dissolution of a limited partnership acquisition by the Company's energy group.

Trading securities as of December 31, 2005 were $20 million, a $437 million or 95.6% decrease from December 31, 2004. The large decline was primarily attributable to the liquidation of the Company's actively managed equity trading portfolio and the disposal of certain pension business in Spain, which was a part of the Genesis acquisition.

Limited partnerships and limited liability companies as of December 31, 2005 were $1.040 billion, a $159 million or 18.0% increase over December 31, 2004. Included in the change are two new investments that were initiated in the third quarter specializing in commercial mortgages and real estate financing. The Company's investments in private equity limited partnerships are long-term in nature and largely 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, 2005, the Company had unfunded private equity, commercial mortgages/real estate financing and energy commitments of $693 million, $274 million and $105 million, respectively. Commercial mortgage and real estate financing commitments were initiated in the third quarter of 2005. At December 31, 2005, fixed maturities included commitments by the Company to purchase various non-commercial mortgage-backed securities at a cost of $120 million and fair market value of $121 million.

As of December 31, 2005, no single issuer, other than US Treasury, agency securities and mortgage-backed securities accounted for more than 1.16% of invested assets.

The following tables summarize the Company's fixed income portfolio by security type, credit quality and maturity at December 31, 2005 and 2004:

$ in Millions	**As of December 31, 2005**		**As of December 31, 2004**	
Fixed Maturities by Security Type	**Market Value**	**% of Total**	**Market Value**	**% of Total**
U.S. Treasury securities	$3,208	8.6%	$2,703	7.6%
U.S. mortgage and asset-backed securities	12,508	33.5	12,933	36.3
State and municipal	4,005	10.7	1,141	3.2
Corporate and other	13,885	37.1	15,033	42.2
Foreign	3,785	10.1	3,791	10.7
Total fixed maturities	$37,391	100.0%	$35,601	100.0%

During 2005, the Company, after consideration of investment opportunities, its tax status, and the current and prospective business environment, increased its tactical allocation in state and municipal and U.S. Treasury securities by $2.864 billion and $505 million, respectively.

$ in Millions	As of December 31, 2005		As of December 31, 2004	
Fixed Maturities by Credit Quality*	**Market Value**	**% of Total**	**Market Value**	**% of Total**
AAA	$20,285	54.3%	$19,265	54.1%
AA+, AA, AA-	3,903	10.4	2,889	8.1
A+, A, A-	6,786	18.1	6,977	19.6
BBB+, BBB, BBB-	3,824	10.2	4,124	11.6
BB+, BB, BB-	1,325	3.6	1,235	3.5
B+, B, B-	1,238	3.3	1,058	3.0
CCC or lower	30	0.1	53	0.1
Total fixed maturities	$37,391	100.0%	$35,601	100.0%

For purposes of this disclosure, credit quality is primarily based upon Standard & Poor's ratings.

The Company's allocation in investment grade bonds decreased slightly to 93.0% at December 31, 2005 from 93.4% at December 31, 2004. The decrease primarily reflects the initiation of a syndicated bank loan investment program (approximately $259 million) and rating actions earlier this year by Standard & Poor's on two issuers in the automotive sector. The Company defines an investment grade bond as a security with a rating equivalent to the Standard and Poor's rating of BBB- or higher.

The remaining 7.0% of the Company's investments in fixed maturity securities are rated below investment grade. The Company's holdings of below investment grade securities primarily consist of: (1) a diversified portfolio of high yield bonds within the domestic insurance portfolios; (2) investments in individual emerging market sovereigns that support the Company's international insurance companies located in Argentina, Colombia and Venezuela; (3) the previously mentioned rating actions; and (4) investments in syndicated bank loans.

$ in Millions	As of December 31, 2005		As of December 31, 2004	
Fixed Maturities by Maturity Date	**Market Value**	**% of Total**	**Market Value**	**% of Total**
1 yr or less	$1,080	2.9%	$890	2.5%
Over 1 yr through 5 yrs	6,898	18.4	5,543	15.6
Over 5 yrs through 10 yrs	7,615	20.4	8,148	22.9
Over ten years	9,256	24.8	8,052	22.6
Mortgage and asset-backed securities	12,542	33.5	12,968	36.4
Total fixed maturities	$37,391	100.0%	$35,601	100.0%

During 2005, after taking into consideration changes in investment opportunities and its view of the current and prospective business and economic environment, the Company made only minor adjustments to the average life of its fixed maturity portfolio.

Net Investment Income

The following table summarizes the Company's net investment income at December 31, 2005 and 2004:

$ in Millions	Three Months Ended December 31,		Twelve Months Ended December 31,	
Net Investment Income	**2005**	**2004**	**2005**	**2004**
Interest income	$548	$503	$2,103	$1,944
Dividends	13	30	82	95
Limited partnerships and limited liability companies	26	16	208	141
Other investment income	1	1	6	5
Gross investment income	588	550	2,399	2,185
Investment expenses	(79)	(22)	(152)	(83)
Net investment income	$509	$528	$2,247	$2,102

Net investment income for the three and twelve months ended December 31, 2005 was $509 million and $2.247 billion, respectively, representing a $19 million decrease and a $145 million increase over the same periods in 2004. The decrease in net investment income for the quarter is driven by increased investment expenses and lower dividend income, partially offset by a $45 million increase in interest income. The increase in investment expenses is primarily due to increases in short and long term variable compensation incurred and allocated to the investment function; increased staffing; and general cost increases. The year-to-date improvement also reflects an increase in interest income, primarily due to a higher invested asset base as investment income continues to benefit from significant cash flow from operations and the proceeds from the 2004 and 2005 debt offerings. Partially offsetting the increase in interest income in both periods were lower average portfolio yields, due in part to the re-investment of the proceeds from securities sold or maturing into lower yielding tax-exempt holdings. Both periods were also favorably impacted by an increase in limited partnership and limited liability company gains of $10 million and $67 million in the quarter and year-to-date, respectively, related to private equity investments.

Net Realized Investment Gains (Losses)

The following tables summarize the Company’s net realized investment gains (losses) at December 31, 2005 and 2004:

$ in Millions **Net Realized Investment Gains (Losses)**	**Sales & Dispositions**	**Impairments**	**Change in Trading Security Unrealized**	**Total**
Three Months Ended December 31, 2005:				
Fixed maturities	$8	($4)	$ -	$4
Common and preferred stock	126	(5)	-	121
Other	19	-	-	19
Total	$153	($9)	$ -	$144
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
Twelve Months Ended December 31, 2005:				
Fixed maturities	$175	($ 4)	$ -	$171
Common and preferred stock	208	(14)	(3)	191
Other	161	-	-	161
Total	$544	($18)	($3)	$523
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

$ in Millions	Three Months Ended December 31,		Twelve Months Ended December 31,	
Components of Net Realized Investment Gains (Losses)	**2005**	**2004**	**2005**	**2004**
Fixed maturities:				
Gross realized gains	$41	$147	$263	$404
Gross realized losses	(37)	(32)	(92)	(100)
Equities:				
Gross realized gains	127	45	237	108
Gross realized losses	(6)	(1)	(46)	(84)
Other:				
Gross realized gains	22	41	165	55
Gross realized losses	(3)	(57)	(4)	(71)
Total net realized investment gains (losses)	$144	$143	$523	$312

Net realized investment gains for the three and twelve months ended December 31, 2005 were $144 million and $523 million, respectively, representing an increase of $1 million and $211 million over the same periods in 2004. The change in the quarter primarily reflects a $77 million increase in equities driven by a $106 million gain recognized from the sale of a private equity investment, partially offset by a $111 million decrease in fixed maturity net gains. The improvement year-to-date reflects higher gains in equities and other investments of $167 million and $177 million, respectively, partially offset by a decrease in fixed maturities gains of $133 million. Included in these amounts were an increase of $13 million and a decrease of $17 million in impairment losses in the quarter and year-to-date, respectively, versus the comparable periods in 2004.

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, 2005:

$ 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	($31)	$2,130	($18)	$527
U.S. mortgage and asset-backed securities	(121)	7,406	(60)	1,207
State and municipal	(24)	1,587	(3)	77
Corporate and other	(155)	5,897	(60)	1,330
Foreign	(15)	960	(2)	57
Equities	(12)	145	(8)	59
Total	($358)	$18,125	($151)	$3,257

Unrealized losses increased from $169 million as of December 31, 2004 to $509 million as of December 31, 2005 primarily due to an increase in long-term interest rates. 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, 2005 are temporary.

The gross unrealized losses recorded on common equity securities and other investments at December 31, 2005 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.

A separate review is also made of all holdings where the market value of the security has been below book value for over twelve months and as a result of this review, $3 million in impairment losses were recorded for equities in the fourth quarter of 2005.

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, 2005 totaled $41.873 billion.

Short-term debt outstanding at December 31, 2005 and 2004 was as follows:

$ in Millions	**As of December 31, 2005**	**As of December 31, 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 outstanding at December 31, 2005 and 2004 was as follows:

$ in Millions	**As of December 31, 2005**	**As of December 31, 2004**
8.20% Surplus notes, due 2007	$121	$121
6.75% Notes, due 2008	15	15
5.00% Prudential notes due 2008	4	14
8.00% Prudential notes—series B due 2013	260	260
5.75% Senior 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% Senior notes, due 2034	250	250
6.50% Senior notes, due 2035	500	-
7.697% Surplus notes, due 2097	500	500
7.10% – 7.86%, Medium term notes, with various maturities	27	27
Subtotal	2,580	2,090
Unamortized discount	(25)	(16)
Total long-term debt excluding current maturities	$2,555	$2,074

The Company issues commercial paper from LMGI. The total amount authorized for this program is $600 million and the program is backed by a $750 million five-year revolving credit agreement, which became effective on July 25, 2005. To date, no funds have been borrowed under the facility.

Liberty International Iberia S.L., S.C.S. entered into a new 85 million euro / $100 million 364 day revolving credit agreement, which became effective October 14, 2005. The facility is available to provide working capital to the Company's international operations. The 364 day credit agreement is guaranteed by LMIC. To date, no funds have been borrowed under the facility.

The Company also has a Venezuelan subsidiary, Inversora Segucar, C.A., which has entered into a revolving credit facility to provide liquidity for working capital purposes. Inversora Segucar also has short-term loans outstanding. As of December 31, 2005, total short-term loans and borrowings under the Venezuelan credit facility were approximately $35 million.

The $108 million decrease in short-term debt outstanding is primarily due to the redemption of $47 million of commercial paper, $61 million of maturing medium term notes and $16 million of 5% notes due in 2008 to Prudential Financial Inc. issued in connection with the PruPac acquisition. An additional $10 million of the 5% notes due in 2008 to Prudential Financial Inc. will be redeemed in the first quarter of 2006.

The $481 million increase in long-term debt outstanding is primarily the result of the March 22, 2005 offering by LMGI of $500 million of 30-year senior notes. The proceeds were contributed to its wholly owned subsidiaries, LMIC and Employers Insurance Company of Wausau ("EICOW").

Consolidated interest expense for the three and twelve months ended December 31, 2005 was $48 million and $184 million, respectively, representing increases of $8 million and $27 million over the same periods in 2004. The increase is primarily due to the March 2004 and 2005 debt offerings.

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, 2005, the Company, through its downstream subsidiary LMGI, had $1.633 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, 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 LMFIC and 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, as could a redomestication, merger or consolidation of LMIC, LMFIC or EICOW to a different domiciliary state. 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, 2005, the authorized control level risk-based capital and 2006 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	**2005**	**2004**	**Change**	**2006**
LMIC	495%	459%	36 points	$692
LMFIC	596%	473%	123 points	$5
EICOW	370%	346%	24 points	$86

[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. LMIC’s dividend capacity does not reflect an additional $100 million of capacity available for payment after December 26, 2006.

On December 22, 2005, LMFIC changed its state of domicile from Massachusetts to Wisconsin. The primary reason for this redomestication was to improve LMFIC's operating efficiency through reduced “retaliatory” premium taxes.

LMGI also has access to funds at Liberty Corporate Services LLC (the "service companies"). The service companies, which include Helmsman Insurance Agency, Summit Consulting and Helmsman Management Services, collects fees and other revenues for claims administration and agency services rendered for affiliated and non-affiliated insurance entities. In 2005, the services companies recorded $178 million in pre-tax income.

Statutory Surplus
Statutory surplus as regards policyholders for the combined operations of LMIC and its U.S. affiliates including international branches was $9.869 billion and $8.739 billion at December 31, 2005, and December 31, 2004, respectively. The increase in surplus reflects $920 million of net income and $486 million of capital contributions related to the March 2005 debt offering. This increase is partially offset by $416 million of affiliated unrealized losses, primarily due to the catastrophe losses incurred by non-domestic insurance subsidiaries. The balance of the increase in statutory surplus primarily reflects changes in 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;
- variable interest entities;
- deferred acquisition costs;
- the valuation of goodwill; 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 2004 tables to conform to the 2005 tables.

Unpaid Claims and Claim Adjustment Expenses

Reserves for property-casualty unpaid claims and claim adjustment expenses were $38.045 billion and $33.884 billion at December 31, 2005 and 2004, respectively. The increase was due to business growth and reserves established for the 2005 hurricanes less the on-going settlement of claims. For the twelve months ended December 31, 2005 and 2004, incurred losses attributable to prior years excluding discount accretion and including prior year losses related to the 2004 hurricanes were $347 million and $562 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 $1.628 billion and $1.641 billion at December 31, 2005 and 2004, respectively, net of reinsurance and including an allowance for doubtful accounts. The year-to-date change primarily reflects the completion of the Company's biennial ground-up asbestos reserve study in the third quarter. As part of that review, a multi-disciplined team of internal claims, legal, reinsurance and actuarial personnel completed their comprehensive review of the Company's asbestos exposure on a direct, assumed, and ceded basis including potential exposures of large policyholders that were individually evaluated using the Company's proprietary stochastic model, which is consistent with the latest published actuarial paper on asbestos reserving. Among the factors reviewed in depth by the team specialists were the type of business, level of exposure, coverage limits, geographic distribution of products, types of injury, state jurisdictions, legal defenses, and reinsurance potential. Small policyholders were evaluated using aggregate methods that utilized information developed from the large policyholders. Additionally, a provision of pure IBNR was established for the potential emergence of first-time filers of future asbestos claims. Based on this internal study, the Company increased its asbestos reserves by $203 million, which is approximately $50 million above the point estimate of the Company's internal actuaries and reflects management's best estimate of the reserve requirement. Partially offsetting that increase was settlement activity throughout 2005.

Also considered in the analysis was the fact that all A&E claims against policies issued prior to 1986 by EICOW and its affiliates are 100% ceded to Nationwide Indemnity Company and guaranteed by Nationwide Mutual Insurance Company. In addition, the Company's 2003 acquisition of PruPac included $175 million and $118 million of gross and net asbestos reserves, respectively. Any increase in asbestos reserves related to PruPac is reinsured by Vantage Casualty Insurance Company and guaranteed by Prudential Financial Inc.

The Company's asbestos reserves as of December 31, 2005 and 2004 were as follows:

$ in Millions	**As of December 31, 2005**	**As of December 31, 2004**
Gross reserves[1]	$1,421	$1,262
Ceded reserves[1]	355	301
Net reserves	$1,066	$961
Allowance for reinsurance on unpaid losses[2]	110	127
Total asbestos reserves	**$1,176**	**$1,088**

[1] Excludes reserves guaranteed by Nationwide Mutual Insurance Company.

In the third quarter of 2005, the Company, in conjunction with its own internal review, engaged an independent actuarial firm to conduct a comprehensive, ground-up review of its June 30, 2005 asbestos reserves. The external review resulted in an indicated reserve that was approximately $60 million above the Company's carried reserves as of September 30, 2005. The primary area of difference is in the IBNR estimate, which is for policyholders that have no reported claims as of the date of the analysis. The Company will not adjust its asbestos reserves for any difference between the independent actuarial firm's estimate and the Company's carried reserves, as both estimates are well within the range of reasonableness. In the third quarter of 2005, the Company strengthened reserves by $203 million, which was approximately $50 million above the point estimate of the Company's internal actuaries and reflects management's best estimate of the reserve requirement.

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 $16.302 billion and $14.209 billion at December 31, 2005 and December 31, 2004, respectively, net of allowance for doubtful accounts of $324 million and $349 million, respectively. Approximately $1.3 billion of the increase reflects the effects of the third quarter hurricanes. Of the hurricane related losses, $104 million can be attributed to the National Flood Insurance Program, for which the Company acts as a servicing carrier for the federal pool. The remainder of the increase is primarily due to growth in Liberty International Underwriters, increased cessions to state mandated involuntary pools and associations, the booking of an updated actuarial A&E study performed by Nationwide, partially offset by a commutation agreement between the Company and Converium Reinsurance (North America) Inc., formerly known as Zurich Reinsurance (North America) Inc. Pursuant to the agreement, which was entered into in September 2005, the Company commuted its ceded reinsurance contracts with Converium Reinsurance (North America) Inc. The commutation does not include ceded reinsurance contracts with affiliates of Converium such as Converium Ltd, Zurich, Switzerland or Converium Rückversicherung (Deutschland) AG, or their respective predecessors.

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 this servicing carrier business is the composite of the cumulative creditworthiness of all participants in their respective pools.

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 94% 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, 2005. Collateral held against outstanding gross reinsurance recoverable balances was $4.106 billion and $3.589 billion at December 31, 2005 and December 31, 2004, respectively.

The remaining 6% of the Company's net reinsurance recoverable balance is well diversified. No single reinsurer rated B++ or below by A.M. Best accounts for more than 2% of statutory surplus as regards policyholders. In addition, the average net reinsurance recoverable balance from individual reinsurers rated below A- or not rated by A.M. Best was approximately $1 million as of December 31, 2005.

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 as of December 31, 2005 and 2004) that are amortized into income using the effective interest method over the estimated settlement periods. The Company periodically re-estimates 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 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 years ended December 31, 2005 and 2004 was $113 million and $103 million, respectively. Deferred gain amortization was $89 million and $47 million, for the years ended December 31, 2005 and 2004, respectively. Reinsurance recoverables related to these transactions including experience related profit accruals were $2.211 billion and $2.219 billion as of December 31, 2005 and 2004, respectively.

Additionally, the Company has an aggregate stop loss program covering substantially all of Commercial Markets voluntary workers compensation business from the fourth quarter 2000 through the fourth quarter 2002 accident periods. Under these contracts, losses in excess of a specified loss ratio are reinsured up to a maximum loss ratio and were accounted for as prospective reinsurance at inception. However, due to a material contract change at the January 1, 2002 renewal, premium and loss activity subsequent to December 31, 2001 is now accounted for as retroactive reinsurance for coverage provided from the fourth quarter 2000 through the fourth quarter 2001 covered accident year periods. Moreover, approximately $38 million and $31 million of additional losses were ceded to these retroactive and prospective contracts for the twelve months ended December 31, 2005, with additional premium of $24 million and $22 million, respectively, recorded in June 2005. Approximately $68 million and $78 million of additional losses were ceded to these retroactive and prospective contracts for the twelve months ended December 31, 2004, with additional premium of $38 million and $45 million, respectively, recorded in June 2004.

Impairment Losses on Investments

The total impairment losses on investments for the three and twelve months ended December 31, 2005 were $9 million and $18 million, respectively, representing a $13 million increase and $17 million decrease from the same periods in 2004. 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 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. However, the Company reserves the flexibility to trade any investment as deemed appropriate based on changes in credit or other market factors in managing the invested asset positions of the Company.

On November 3, 2005, the Financial Accounting Standards Board issued FASB Staff Position No. FAS115-1,"The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments" (FSP 115-1). In part, FSP 115-1 attempts to clarify when a security is impaired due to fluctuations in interest rates. The Company is presently assessing the guidance provided in FSP 115-1 and whether changes in the Company's present other-than-temporary impairment policy and processes are necessary to comply.

Variable Interest Entities

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" ("FIN 46"). FIN 46 requires certain variable interest entities ("VIEs") to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or the entity does not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 was revised in late 2003 (FIN 46(R)) and was effective January 1, 2004 for the Company for all new VIEs created or acquired after December 31, 2003. For VIEs created or acquired by the Company prior to December 31, 2003, the provisions of FIN 46 have been applied in 2005.

The Company's exposure to investment structures subject to analysis under FIN 46(R), relates primarily to investments in energy and private equity limited partnerships that are accounted for under the equity method. The Company has determined that it is the primary beneficiary for two VIEs in the energy investment sector at December 31, 2005. In addition, the Company has investments in 3 VIEs for which it is not the primary beneficiary at December 31, 2005. The Company's investments in VIE's are not material to the Company's consolidated financial position, results of operations or cash flows at December 31, 2005. The Company's maximum exposure to losses from VIEs is $10 million at December 31, 2005, and there is no recourse provision to the general credit of the Company beyond the full amount of the Company's loss exposure.

Derivatives

The Company has a Derivative Use Policy (DUP) which has been approved by the Investment Committee and state insurance regulatory authorities. Pursuant to the DUP, the Company may enter into derivative transactions. The Company entered into a forward contract in June 2005 to hedge an exposure to a foreign currency, which was subsequently closed prior to December 31, 2005. As of December 31, 2005 the Company had several embedded derivative instruments in its portfolio and two interest rate swaps acquired with the assets and liabilities of the Genesis life insurance business. As of December 31, 2005, the value of these instruments was immaterial. The Company recognized approximately $5 million in realized investment losses in the fourth quarter of 2005 associated with the interest rate swaps.

Deferred Policy Acquisition Costs

Total deferred policy acquisition costs were $1.476 billion and $1.354 billion as of December 31, 2005 and 2004, 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.

Goodwill and Intangibles

Goodwill and intangible assets were $810 million and $824 million at December 31, 2005 and 2004, respectively.

Deferred Income Taxes

The net deferred income tax asset was $1.627 billion and $938 million as of December 31, 2005 and 2004, respectively, net of a valuation allowance of $99 million and $340 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 reduction in the remaining domestic tax valuation allowance to zero and the tax benefit available for foreign losses incurred at the Company's Lloyd's Syndicate, 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 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 million 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. In 2005 the Company repatriated $161 million from its foreign subs and recorded a related tax expense of $18 million. The Company has not provided for U.S. deferred income taxes or foreign withholding tax on basis differences in its non-U.S. subsidiaries of $423 million that result primarily from undistributed earnings the Company intends to reinvest indefinitely. Determination of the deferred income tax liability on these basis differences is not practicable because such liability, if any, is dependent on circumstances existing if and when remittance occurs.

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 diversified global insurer and sixth largest property and casualty insurer in the U.S. based on 2004 direct written premium. The Company also ranks 111th on the Fortune 500 list of largest corporations in the United States based on 2004 revenue. As of December 31, 2005, LMG had $78.824 billion in consolidated assets and $21.161 billion in annual consolidated revenue.

LMG, through its subsidiaries and affiliated companies, offers a wide range of property-casualty insurance products and services to individuals and businesses alike. In 2001 and 2002, the Company formed a mutual holding company structure, whereby the three principal mutual insurance companies, LMIC, LMFIC and EICOW, each became separate stock insurance companies under the ownership of Liberty Mutual Holding Company.

Functionally, the Company conducts its business through four strategic business units: Personal Market, Commercial Markets, Agency Markets (formerly Regional Agency Markets but now includes Wausau and Surety) and International. Each business unit operates independently of the others and has dedicated sales, underwriting, claims, actuarial, financial and certain information technology resources. Management believes this structure allows each business unit to execute its business strategy and/or to make acquisitions without impacting or disrupting the operations of the Company's other business units.

LMG employs over 39,000 people in more than 900 offices throughout the world. For a full description of the Company's business operations, products and distribution channels please visit Liberty Mutual's Investor Relations web site at www.libertymutual.com/investors.