Liberty Mutual Holding Company Inc.

Third Quarter 2006

Consolidated Financial Statements

(unaudited)

Liberty Mutual Holding Company Inc.

Consolidated Statements of Income

(dollars in millions)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
Revenues				
Premiums earned	$ 4,921	$ 4,428	$ 14,767	$ 12,965
Net investment income	664	590	1,858	1,738
Fee and other revenues	187	195	576	565
Net realized investment gains	242	173	311	379
Total revenues	6,014	5,386	17,512	15,647
Claims, Benefits and Expenses				
Benefits, claims and claim adjustment expenses	3,542	4,235	10,996	10,457
Insurance operating costs and expenses	1,573	1,250	4,542	4,069
Other expenses	105	91	293	276
Total claims, benefits and expenses	5,220	5,576	15,831	14,802
Income (loss) from continuing operations before income tax expense	794	(190)	1,681	845
Federal and foreign income tax expense (benefit)	238	(68)	510	59
Income (loss) from continuing operations before discontinued operations	556	(122)	1,171	786
Discontinued operations, net of tax	-	-	-	(12)
Net income (loss)	$ 556	$ (122)	$ 1,171	$ 774

See accompanying notes to the unaudited consolidated financial statements.

Liberty Mutual Holding Company Inc.

Consolidated Balance Sheets

(dollars in millions)

(Unaudited)

	September 30, 2006	December 31, 2005
Assets:		
Investments		
Fixed maturities, available for sale, at fair value (amortized cost of $40,026 and $36,962)	$ 40,159	$ 37,391
Equity securities, available for sale, at fair value (cost of $1,598 and $1,154)	2,440	1,908
Trading securities, at fair value (cost of $14 and $13)	22	20
Other investments	1,635	1,124
Short-term investments	1,373	1,430
Total investments	45,629	41,873
Cash and cash equivalents	3,429	3,155
Premium and other receivables (net of allowance of $106 and $131)	6,377	5,976
Reinsurance recoverables (net of allowance of $344 and $324)	15,937	16,302
Deferred income taxes (net of valuation allowance of $96 and $99)	1,641	1,627
Deferred policy acquisition costs	1,653	1,476
Goodwill and intangible assets	873	810
Prepaid reinsurance premiums	1,369	1,224
Property, plant and equipment, net	1,624	1,109
Other assets	2,964	2,702
Separate account assets	2,660	2,570
Total assets	$ 84,156	$ 78,824
Liabilities:		
Unpaid claims and claim adjustment expenses and future policy benefits:		
Property and casualty	$ 38,592	$ 38,045
Life	5,427	4,751
Other policyholder funds and benefits payable	2,619	2,491
Unearned premiums	9,701	8,454
Funds held under reinsurance treaties	1,801	1,826
Short-term debt	161	145
Long-term debt	3,174	2,555
Other liabilities	10,015	9,129
Separate account liabilities	2,660	2,570
Total liabilities	74,150	69,966
Policyholders' equity:		
Unassigned equity	9,637	8,466
Accumulated other comprehensive income	369	392
Total policyholders' equity	10,006	8,858
Total liabilities and policyholders' equity	$ 84,156	$ 78,824

See accompanying notes to the unaudited consolidated financial statements.

Liberty Mutual Holding Company Inc.

Consolidated Statements of Changes in Policyholders' Equity

(dollars in millions)

(Unaudited)

	Nine Months Ended September 30,	
	2006	**2005**
Balance at beginning of the period	$ 8,858	$ 8,697
Net income	1,171	774
Other comprehensive (loss) income, net of taxes:		
Unrealized losses on securities	(94)	(369)
Foreign currency translation and other adjustments	71	(30)
Total other comprehensive loss, net of taxes	(23)	(399)
Total comprehensive income	1,148	375
Balance at end of the period	$ 10,006	$ 9,072

See accompanying notes to the unaudited consolidated financial statements.

Liberty Mutual Holding Company Inc.

Consolidated Statements of Cash Flows

(dollars in millions)

(Unaudited)

	Nine Months Ended September 30, 2006	2005
Cash flows from operating activities:		
Net income from continuing operations	$ 1,171	$ 786
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	157	148
Realized investment gains	(311)	(379)
Undistributed private equity investment gains	(194)	(115)
Premium, other receivables, and reinsurance recoverables	(61)	(1,604)
Deferred policy acquisition costs	(171)	(120)
Liabilities for insurance reserves	2,550	3,778
Taxes payable, net of deferred	62	(221)
Other, net	(345)	881
Total adjustments	1,687	2,368
Net cash provided by operating activities	2,858	3,154
Cash flows from investing activities:		
Purchases of investments	(15,089)	(15,735)
Sales and maturities of investments	11,872	13,122
Property and equipment purchased, net	(652)	(300)
Payment for purchase of companies, net of cash acquired	(45)	(13)
Other investing activities	184	390
Net cash from acquisitions and dispositions	-	(15)
Net cash used in investing activities	(3,730)	(2,551)
Cash flows from financing activities:		
Net activity in policyholder accounts	48	13
Debt financing, net	635	267
Net security lending activity and other financing actitivites	463	209
Net cash provided by financing activities	1,146	489
Net cash provided by discontinued operations	-	33
Net increase in cash and cash equivalents	274	1,125
Cash and cash equivalents, beginning of period	3,155	2,590
Cash and cash equivalents, end of period	$ 3,429	$ 3,715

See accompanying notes to the unaudited consolidated financial statements.

LIBERTY MUTUAL HOLDING COMPANY INC.

September 30, 2006

Notes to Consolidated Financial Statements

(dollars in millions)

(Unaudited)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The Company's principal estimates include (1) unpaid losses and loss expense reserves, including asbestos and environmental reserves, (2) allowance for uncollectible reinsurance and policyholder receivables, (3) other than temporary impairments to the fair value of the investment portfolio, (4) deferred acquisition costs, (5) the valuation of goodwill, and (6) the deferred tax valuation allowance. While management believes that the amounts included in the consolidated financial statements reflect their best estimates and assumptions, these amounts could ultimately be materially different from the amounts currently provided for in the consolidated financial statements. Certain reclassifications have been made to the 2005 consolidated financial statements to conform with the 2006 presentation.

Significant Accounting Policies

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

Adoption of New Accounting Standards

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

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

Future Adoption of New Accounting Standards

In February 2006 the FASB issued Statement of Financial Accounting Standards No. 155, *Accounting for Certain Hybrid Financial Instruments, an amendment of SFAS 133 and 140* (SFAS 155). SFAS 155 replaces SFAS 133 Implementation Issue D1, "Application of Statement 133 to Beneficial Interests in Securitized Financial Assets" and requires the evaluation of securitized financial assets for embedded derivatives. The Company is required to adopt SFAS 155 effective January 1, 2007. The Company is in the process of evaluating the impact of adoption.

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

In September 2006 the FASB issued FASB Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of SFAS 87, 88, 106, and 132*R (SFAS 158). This statement requires an employer to recognize the over- or under-funded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. The statement also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position. The Company is required to adopt SFAS 158 effective December 31, 2007. The Company is in the process of evaluating the impact of adoption.

(dollars in millions)

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

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

	September 30, 2006	December 31, 2005
Unrealized gains on securities	$562	$656
Foreign currency translation adjustments	139	68
Minimum pension liability	(332)	(332)
Accumulated other comprehensive income	$369	$392

(2) DISCONTINUED OPERATIONS

Discontinued Operations

In December 2004, the Company's management approved a plan to sell the pension externalization business of Seguros Genesis S.A operations. The Company completed the disposition in December 2005. The operations were a net loss of $0 and $12 for the three months and nine months ended September 30, 2005, respectively.

(3) ACQUISITIONS AND GOODWILL

On September 5, 2006, the Company, through its Spanish subsidiary, Liberty Seguros Compania de Seguros y Reaseguros S.A. ("Liberty Seguros"), acquired a majority interest in Seker Sigorta A.S., a mid-sized property and casualty insurer located in Istanbul, Turkey for $46 million. Additionally, Liberty Seguros has applied for approval to begin a tender offer process to acquire the remaining shares of Seker Sigorta during the course of the fourth quarter of 2006.

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

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

(4) REINSURANCE

The Company is party to retroactive reinsurance arrangements where a significant portion of the consideration was retained on a "funds held" basis and interest is credited on the balance at a weighted average rate of approximately 7.7% annually. These contracts resulted in deferred gains (including experience related profit accruals of $195 million as of September 30, 2006 and December 31, 2005) that are amortized into income using the effective interest method over the estimated settlement periods. As of September 30, 2006, and December 31, 2005, deferred gains related to these reinsurance arrangements were $839 million and $878 million, respectively, and are included in other liabilities within the consolidated balance sheets. Interest credited to the funds held balances for the three months and nine months ended September 30, 2006, was $27 million and $80 million, respectively, as compared to $26 million and $87 million, for the three months and nine months ended September 30, 2005, respectively. Amortization of the deferred gain for the three months and nine months ended September 30, 2006, was $15 million and $45 million, respectively, as compared to $13 million and $71 million for the three months and nine months ended September 30, 2005, respectively. Reinsurance recoverables related to these transactions, including experience related profit accruals, were $2,189 and $2,211 as of September 30, 2006, and December 31, 2005, respectively.

(dollars in millions)

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

(5) DEBT OUTSTANDING

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

Short-term debt:

	2006	2005
Commercial paper	$-	$100
Revolving credit facilities	40	35
Current maturities of long-term debt	121	10
Total short-term debt	$161	$145

Long-term debt:

	2006	2005
8.20% Surplus Notes, due 2007	$-	$121
6.75% Notes, due 2008	15	15
5.00% Notes, due 2008	4	4
8.00% Notes, due 2013	260	260
5.75% Notes, due 2014	500	500
6.70% Notes, due 2016	250	-
8.50% Surplus Notes, due 2025	150	150
7.875% Surplus Notes, due 2026	250	250
7.63% Notes, due 2028	3	3
7.00% Notes due 2034	250	250
6.50% Notes due 2035	500	500
7.50% Notes, due 2036	500	-
7.697% Surplus Notes, due 2097	500	500
7.10 % - 7.86%, Medium Term Notes, with various maturities	27	27
	3,209	2,580
Unamortized discount	(35)	(25)
Total long-term debt excluding current maturities	$3,174	$ 2,555

Short-term Debt

The Company issues commercial paper to meet short-term operating needs. The total facility was $600 as of September 30, 2006, and December 31, 2005, and is supported by a $750 line of credit facility. Commercial paper issued and outstanding as of September 30, 2006, and December 31, 2005, was $0 and $100, respectively. Interest rates ranged from 4.43% to 5.50% and 2.31% to 3.88% for the nine months ended September 30, 2006, and 2005, respectively.

Long-term Debt

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

On August 15, 2006, the Company issued $250 of 6.70% unsecured senior notes due 2016 and $500 of 7.50% unsecured senior notes due 2036. Interest on the Notes is paid semi-annually on February 15 and August 15.

(dollars in millions)

(6) BENEFIT PLANS

The net benefit costs for the three and nine months ended September 30, 2006, and 2005, included the following components:

	Pension Benefits		Supplemental* Pension Benefits		Postretirement Benefits	
Three months ended September 30,	2006	2005	2006	2005	2006	2005
Components of net periodic benefit costs:						
Service cost	$37	$29	$2	$2	$4	$4
Interest cost	45	42	3	3	6	7
Expected return on plan assets	(50)	(51)	-	-	-	-
(Gain)/loss recognized due to settlement	-	-	-	-	-	-
Amortization of unrecognized:						
Net (gain)/loss	16	6	2	1	(1)	-
Prior service cost	-	-	1	1	-	(1)
Net transition (assets)/obligations	(1)	(2)	-	-	3	2
Net periodic benefit costs	$47	$24	$8	$7	$12	$12

	Pension Benefits		Supplemental* Pension Benefits		Postretirement Benefits	
Nine months ended September 30,	2006	2005	2006	2005	2006	2005
Components of net periodic benefit costs:						
Service cost	$113	$94	$7	$7	$14	$11
Interest cost	136	128	10	10	20	20
Expected return on plan assets	(148)	(149)	-	-	(1)	(1)
(Gain)/loss recognized due to settlement	-	-	-	-	-	-
Amortization of unrecognized:						
Net (gain)/loss	44	13	6	4	-	-
Prior service cost	1	2	2	2	(2)	(2)
Net transition (assets)/obligations	(4)	(4)	-	-	7	7
Net periodic benefit costs	$142	$84	$25	$23	$38	$35

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

The Company previously disclosed in its financial statements for the year ended December 31, 2005, that it expected to contribute $150 to the qualified pension plans in 2006. As of September 30, 2006, the Company contributed $171 to the qualified pension plans in 2006. The Company does not expect to make any additional contributions in the fourth quarter of 2006.

(7) COMMITMENTS AND CONTINGENT LIABILITIES

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

The Company has been in various insurance coverage disputes with Armstrong World Industries ("Armstrong") for over twenty years relating to asbestos liabilities and insurance covering the period 1973 to 1981. The Company prevailed in a favorable arbitration ruling before an appellate panel regarding Armstrong's insurance coverage in July 2003. Armstrong filed a Chapter 11 Bankruptcy petition in the United States Bankruptcy Court for the District of Delaware in December 2000, but emerged from bankruptcy effective October 2, 2006. A declaratory judgment action, filed by Armstrong in 2002, is pending in the United States District Court for the Eastern District of Pennsylvania seeking coverage for asbestos claims under insurance policies issued to Armstrong during the period of 1973 to 1981, including, but not limited to, damages and a declaration regarding the availability, applicability and scope of alleged non-product coverage not subject to the aggregate limits of the policies. Armstrong contends that a significant portion of its asbestos liability arises from operations that would entitle Armstrong to insurance coverage under the disputed policies without regard to the aggregate limit of liability. The Pennsylvania action is currently in the initial pleading stages. In February 2004 Armstrong filed, in the same Pennsylvania District Court, a Motion to Vacate the appellate arbitration award that was favorable to the Company. The Company has filed a cross motion seeking to confirm the award. Both motions remain pending at this time. Management believes that the ultimate liability, if any, to Armstrong will not be resolved for at least one year and very likely may not be known for several years. In the opinion of management, the outcome of these pending coverage matters is difficult to predict and in the event of an adverse outcome, could have a material adverse effect on the Company's results of operations, financial condition and liquidity.

As of September 30, 2006, the Company had unfunded capital commitments to private equity, commercial mortgages and energy investments of $1,193.

As of September 30, 2006, the Company had commitments to purchase various mortgage-backed securities and corporate and municipal securities settling subsequent to September 30, 2006, at a cost of $204 with a fair value of $205 and at a cost of $95 with a fair value of $95, respectively. They are included as fixed maturities in the consolidated balance sheets.