Liberty Mutual Group Reports Fourth Quarter 2006 Results

BOSTON, Mass., February 26, 2007 – Liberty Mutual Group ("LMG" or the "Company") today reported net income of $455 million and $1.626 billion for the three and twelve months ended December 31, 2006, respectively, an increase of $202 million and $599 million over the same periods in 2005. The increase in both periods primarily reflects the continuation of strong current accident year underwriting and investment results and lower catastrophe losses.

"The strong fourth quarter capped an excellent 2006 for the Liberty Mutual Group. For the twelve months, we had industry-leading growth and continued emphasis on balance sheet strength while reporting out record earnings," said Edmund F. Kelly, Liberty Mutual Group Chairman, President and CEO. "Clearly we benefited from the low level of hurricane activity but the financial fundamentals and the competitive position of each of our business units were the drivers of these very gratifying results."

Fourth Quarter Highlights

- Revenues for the three months ended December 31, 2006 were $6.008 billion, an increase of $494 million or 9.0% over the same period in 2005.

- Net written premium for the three months ended December 31, 2006 was $4.815 billion, an increase of $363 million or 8.2% over the same period in 2005.

- Pre-tax income for the three months ended December 31, 2006 was $577 million, an increase of $292 million or 102.5% over the same period in 2005. Results in the quarter include a $427 million decrease in catastrophe losses from the same period in 2005, as prior year results included the impact of the 2005 hurricanes. Results in the period also reflect a decrease in realized capital gains of $112 million.

- Cash flow from operations for the three months ended December 31, 2006 was $1.037 billion, an increase of $485 million or 87.9% from the same period in 2005.

- The combined ratio before catastrophes, net incurred losses attributable to prior years and the re-estimation of current accident year losses for the three months ended December 31, 2006 was 95.6%, an increase of 2.3 points over the same period in 2005. Including the impact of catastrophes, net incurred losses attributable to prior years and the re-estimation of current accident year losses, the Company's combined ratio for the three months ended December 31, 2006 decreased 7.5 points to 98.1%.

Year-to-Date Highlights

- Revenues for the twelve months ended December 31, 2006 were $23.520 billion, an increase of $2.359 billion or 11.1% over the same period in 2005.

- Net written premium for the twelve months ended December 31, 2006 was $20.628 billion, an increase of $2.552 billion or 14.1% over the same period in 2005.

- Pre-tax income for the twelve months ended December 31, 2006 was $2.258 billion, an increase of $1.128 billion or 99.8% over the same period in 2005. Pre-tax income reflects a $1.095 billion decrease in catastrophe losses from the same period in 2005. Results in the period also reflect a decrease in realized capital gains of $180 million.

- Cash flow from operations for the twelve months ended December 31, 2006 was $3.895 billion, an increase of $189 million or 5.1% from the same period in 2005.

- The combined ratio before catastrophes, net incurred losses attributable to prior years and the re-estimation of current accident year losses for the twelve months ended December 31, 2006 was 95.0%, an increase of 0.2 points over the same period in 2005. Including the impact of catastrophes, net incurred losses attributable to prior years and the re-estimation of current accident year losses, the Company's combined ratio for the twelve months ended December 31, 2006 decreased 6.4 points to 99.3%.

Financial Condition as of December 31, 2006

- Total assets were $85.498 billion as of December 31, 2006, an increase of $6.674 billion or 8.5% over December 31, 2005.

- Policyholders' equity was $10.895 billion as of December 31, 2006, an increase of $2.037 billion or 23.0% over December 31, 2005.

- Statutory surplus as regards policyholders for the combined operations of Liberty Mutual Insurance Company ("LMIC") and its U.S. affiliates was $12.131 billion as of December 31, 2006, an increase of $2.262 billion or 22.9% over December 31, 2005.

- The consolidated debt-to-capital ratio including accumulated other comprehensive income ("AOCI") as of December 31, 2006 was 23.5%, an increase of 0.1 points over December 31, 2005. Excluding AOCI, the consolidated debt-to-capital ratio was 24.9%, an increase of 0.7 points over December 31, 2005.

Consolidated Results of Operations for the Three and Twelve Months Ended December 31, 2006:

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2006**	**2005**	**Change**	**2006**	**2005**	**Change**
Revenues	$6,008	$5,514	9.0%	$23,520	$21,161	11.1%
PTOI before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation	$667	$679	(1.8%)	$2,714	$2,445	11.0%
Catastrophes[1]:						
- 2005 hurricanes[2]	(32)	(541)	(94.1)	(113)	(1,460)	(92.3)
- All other	(92)	(10)	NM	(428)	(176)	143.2
Net incurred losses attributable to prior years:						
- Asbestos & environmental[3]	(20)	(3)	NM	(22)	(215)	(89.8)
- All other[4]	(100)	16	NM	(236)	13	NM
Current accident year re-estimation[5]	122	-	NM	-	-	-
Pre-tax operating income	545	141	NM	1,915	607	NM
Realized investment gains, net	32	144	(77.8)	343	523	(34.4)
Federal and foreign income tax (expense)	(122)	(32)	NM	(632)	(91)	NM
Discontinued operations, net of tax	-	-	-	-	(12)	(100.0)
Net income	$455	$253	79.8%	$1,626	$1,027	58.3%
Cash flow from operations	$1,037	$552	87.9%	$3,895	$3,706	5.1%

1 Catastrophes include all current and prior year catastrophe losses related to the Company's insurance lines and exclude losses related to the Company's external reinsurance assumed lines (assumed voluntary reinsurance and reinsurance assumed through Lloyd's Syndicate 4472) except for losses related to the events of September 11, 2001, the 2004 hurricanes and the 2005 hurricanes. Losses related to the 2005 hurricanes for the three and twelve months ended December 31, 2006 include the reversal of ($14) million and $15 million, respectively, and 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. In addition, losses related to the 2005 hurricanes and the 2004 hurricanes for assumed external reinsurance 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 related net catastrophe reinsurance premium earned of $55 million and $146 million for the three and twelve months ended December 31, 2005.

3 Net of allowance for doubtful accounts of $11 million and $12 million for the three and twelve months ended December 31, 2006, respectively, and $17 million for both of the comparable periods of 2005.

4 Net of earned premium attributable to prior years of ($44) million and ($28) million for the three and twelve months ended December 31, 2006, respectively, and $46 million and $86 million for the comparable periods of 2005. Net of amortization of deferred gains on retroactive reinsurance of $51 million and $97 million for the three and twelve months ended December 31, 2006, respectively, and $18 million and $97 million for the comparable periods of 2005.

5 Re-estimation of the current accident year loss reserves as of the nine months ended September 30, 2006.

NM = Not Meaningful

Financial Information: Liberty Mutual Group's financial results, management's discussion and analysis of operating results and financial condition, accompanying financial statements and other supplemental financial information for the three and twelve months ended December 31, 2006 are available on the Company's Investor Relations web site at www.libertymutual.com/investors.

Conference Call Information: At 10:00 a.m. EST today, Edmund F. Kelly, Liberty Mutual Group Chairman, President and CEO, will host a conference call to discuss the Company's financial results. To listen to the call and participate in Q&A, please dial 877-825-5811 fifteen minutes before the starting time using conference ID number 8086952. A replay will be available until March 5, 2007 at 877-519-4471 using the reservation number 8086952.

About Liberty Mutual Group

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 2005 direct written premium. The Company also ranks 102nd on the Fortune 500 list of largest corporations in the United States based on 2005 revenue. As of December 31, 2006, LMG had $85.498 billion in consolidated assets, $74.603 billion in consolidated liabilities, and $23.520 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, Liberty Mutual Insurance Company, Liberty Mutual Fire Insurance Company and Employers Insurance Company of Wausau, each became separate stock insurance companies under the ownership of Liberty Mutual Holding Company Inc.

Functionally, the Company conducts its business through four SBUs: Personal Markets, Commercial Markets, Agency Markets 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.

Forward-Looking Statements

This press release contains forward-looking statements concerning LMG's future financial and business performance. These statements represent LMG's beliefs concerning future operations, strategies, financial results or other developments, and contain words such as "may," "expects," "should," "believes," "estimates," or similar expressions. Because these forward-looking statements are based on assumptions that are subject to significant business, economic and competitive uncertainties, many of which are beyond LMG's control or are subject to change, actual results could be materially different. In particular, the sufficiency of LMG's reserves for asbestos and environmental (together "A&E") and toxic tort claims, as well as its results of operations, financial condition and liquidity, to the extent impacted by the sufficiency of the A&E and toxic tort reserves, are subject to a number of potential adverse developments, including adverse developments involving A&E and toxic tort claims and the related outcome of litigation, the willingness of parties to settle disputes, the interpretation of aggregate coverage limits, LMG's ability to recover reinsurance for A&E, toxic tort and other claims, the legal, economic, regulatory, and legislative environments, and their impact on the future development of A&E and toxic tort claims, and the impact of bankruptcies of various asbestos producers and related businesses. Other factors that could cause actual results to differ include: LMG's inability to obtain price increases due to competition or otherwise; the performance of LMG's investment portfolios, weakening U.S. and global economic conditions;

insufficiency of loss reserves; the occurrence of natural or man-made catastrophic events exceeding LMG's expectations; adverse changes in loss cost trends, adverse developments in the cost, availability and/or ability to collect reinsurance; the ability of LMG's subsidiaries to pay dividends to LMG; adverse results or other consequences from legal proceedings or regulatory investigations or reforms, including governmental actions regarding the compensation of brokers and agents and the sale of nontraditional products and related disclosures; unusual loss activity resulting from adverse weather conditions, including storms, hurricanes, hail, snowfall and winter conditions; the tax impact of the repatriation of foreign earnings; larger than expected assessments for guaranty funds and involuntary market pools; a downgrade in LMG's insurance subsidiaries' ratings; restrictions on LMG'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. LMG's forward-looking statements speak only as of the date of this release or as of the date they are made and should be regarded solely as LMG's current estimates and beliefs. LMG undertakes no obligation to update these forward-looking statements. For a further discussion of these and other risks and uncertainties, see LMG's website at www.libertymutual.com/investors.

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