175 BERKELEY STREET, BOSTON, MA 02117 > WWW.LIBERTYMUTUAL.COM

LIBERTY MUTUAL GROUP 03 ANNUAL REPORT

LIBERTY MUTUAL GROUP 03 ANNUAL REPORT

FINANCIAL HIGHLIGHTS

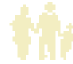
(DOLLARS IN MILLIONS)

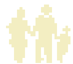
	2003	2002	2001
Liberty Mutual Group			
Revenue	$16,618	$14,290	$12,804
Pre-tax operating income[1]	405	492	(1,743)
Pre-tax income	777	611	(1,655)
Total assets	64,422	55,877	53,065
Cash flow from operations	2,679	1,260	(46)
Policyholders' equity	7,381	6,447	5,885
GAAP combined ratio[2]	104.4%	106.3%	128.1%
Personal Market			
Revenue	$ 4,690	$ 4,178	$ 3,674
Pre-tax operating income	397	342	24
Total assets	12,886	10,365	8,981
Cash flow from operations	985	853	346
GAAP combined ratio	97.9%	99.9%	106.8%
Commercial Markets			
Revenue	$ 5,342	$ 4,646	$ 4,277
Pre-tax operating income	412	447	(879)
Total assets	24,494	23,178	23,344
Cash flow from operations	832	221	(504)
GAAP combined ratio	106.1%	107.9%	148.2%
Regional Agency Markets			
Revenue	$ 3,387	$ 2,908	$ 2,388
Pre-tax operating income	302	160	(53)
Total assets	7,918	7,319	5,951
Cash flow from operations	802	379	23
GAAP combined ratio	100.6%	106.1%	113.8%
International			
Revenue	$ 2,926	$ 2,515	$ 2,145
Pre-tax operating income	130	178	(412)
Total assets	9,445	6,469	5,721
Cash flow from operations	750	686	460
GAAP combined ratio	101.1%	102.8%	126.0%
Other[3]			
Revenue	$ 273	$ 43	$ 320
Pre-tax operating income	(836)	(635)	(423)
Cash flow from operations	(690)	(879)	(371)

[1] Pre-tax operating income is defined as net income in accordance with
federal and foreign income taxes, extraordinary items, discontinued operations and cumulative effect of changes in accounting principles. Investment income is allocated to the major businesses on a total return basis and differs from the methodology utilized in the Company's recent debt offering memorandum. Pre-tax operating income is the basis used by management for measuring operating performance internally. However analysis of the Company's results should be used only in conjunction with data presented in accordance with GAAP.

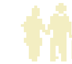
[2] The combined claim and expense ratio, expressed as a percentage, is a measure of underwriting profitability. This measure should only be used in conjunction with, and not in lieu of, underwriting income and may not be comparable to other performance measures used by the Company's competitors. The combined claim and expense ratio is computed as the sum of the following property and casualty ratios: the ratio of claims and claim adjustment expenses to earned premium;
and less installment charges; and the ratio of policyh

[3] Other includes discontinued operations, asbestos and environmental, net r
the difference between investment income allocated to businesses on a total return basis and actual investment income.

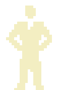




With our policyholders we are engaged in a great mutual enterprise. It is great because it seeks to prevent crippling injuries and death by removing the causes of home, highway and work accidents. It is great because it deals in the relief of pain and sorrow and fear and loss. It is great because it works to preserve and protect the things people earn and build and own and cherish. Its true greatness will be measured by our power to help people live safer more secure lives.



POLICYHOLDER MESSAGE 2 | LIBERTY MUTUAL GROUP 6 | PERSONAL MARKET 10 | COMMERCIAL MARKETS 14 |
REGIONAL AGENCY MARKETS 18 | LIBERTY INTERNATIONAL 22 | FINANCIAL STATEMENTS 27



POLICYHOLDER MESSAGE

Building on a very successful 2002, Liberty Mutual had an even better 2003, growing both revenue and earnings. More important, and boding well for the company's future, we continued to strengthen our balance sheet and, as well as growing organically, we acquired more businesses, both in the U.S. and overseas.

For the year, Liberty Mutual Group reported worldwide revenue of $16.6 billion, up from $14.3 billion in 2002, with cash flow from operations totaling $2.7 billion. Net income was $851 million in 2003, compared to $508 million in 2002, while pre-tax operating income was $405 million, a decrease of $87 million from 2002. Policyholders' equity increased $934 million to $7.4 billion in 2003, while consolidated assets totaled $64.4 billion at year-end.

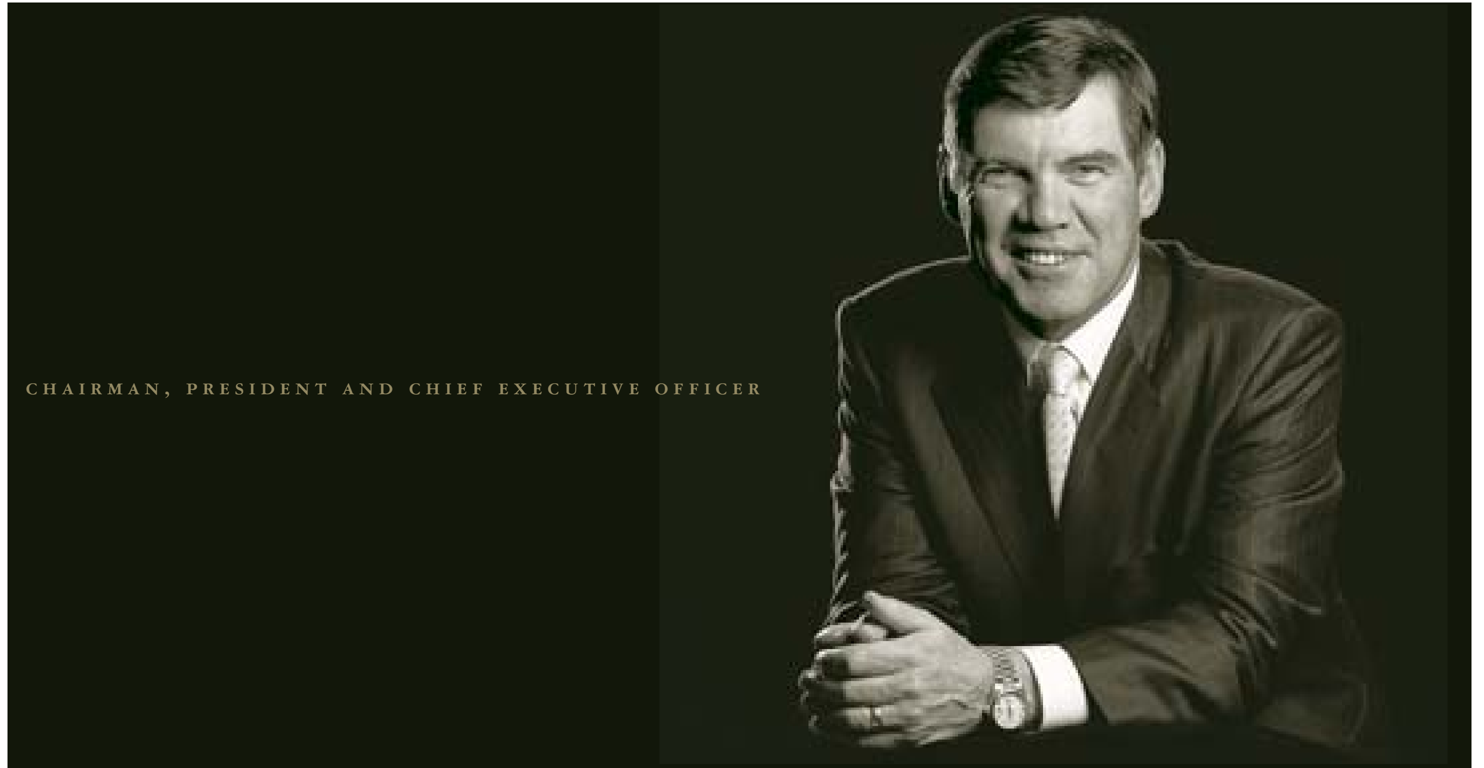
These financial results reflect the strengthening of our reserves for asbestos liability by $331 million. This strengthening was a result of a comprehensive "ground-up" study of our asbestos exposures. While $331 million is a large number in absolute terms, it is small relative to the reserve additions made by some competitors. This is because we have taken a conservative approach to reserving over the years, and because we have more limited exposure to the larger asbestos claims.

The combination of organic growth and acquisitions has made Liberty Mutual the fifth-largest property and casualty insurer in the United States and the second-largest U.S.-based international property and casualty insurer, with operations in 17 foreign countries.

As for our operating businesses, each of our four business units — Personal Market, Commercial Markets, Regional Agency Markets and Liberty International — had strong results, thanks to strict, disciplined underwriting and adequate pricing. We expect the market conditions that support these prices to continue in 2004, and we will hold the line on underwriting standards and prices when market conditions do change, as they inevitably will. As always, our goal is to provide the best price based on quality of service and cost of risk.

Nothing represents better our long-term commitment to lowering the cost of risk and providing service to our policyholders than the Liberty Mutual Research Institute in Hopkinton, Mass. Renamed and significantly expanded in 2003, the Institute is now in its 50th year researching the cause and prevention of workplace injuries, and ways to achieve safe and sustained return-to-work for injured or disabled workers. We expanded the Institute to accommodate its ever-growing research program and provide more capacity for the hundreds of visitors who come to the Institute each year to observe our work and collaborate on research projects.

Hopkinton is also the site of a new, 14,000-square-foot Claims Training Center where, in an interactive environment, our personal auto and home claims adjusters experience thorough, hands-on appraisal training. Our investment in this training facility, combined with the acquisition of Prudential Financial's property and casualty lines of insurance and the success of the Personal Market's multi-channel distribution strategy, symbolize our commitment to personal insurance.



EDMUND F. KELLY > CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER

We achieved this growth in personal lines alongside our historic commitment to workers compensation and our growing commercial property, auto and liability lines. Commercial Markets had a very strong year, whether it be our national accounts, which saw significant growth, Wausau, where we continue to broaden our middle-market broker channel, or our re-underwritten surety portfolio. That said, we remain quite concerned about the high rate of increase in medical costs in workers compensation. Rising costs, combined with

increasingly expansive interpretations of workers compensation law, mean that the workers compensation system is in some cases a pre-paid, lifetime medical plan for some workers. This is not sustainable over the long term, and it is an issue we will increasingly address in various states.

Our Regional Agency Markets (RAM) business, a group of seven locally branded regional insurers and two specialty insurers, completed the integration of the $1 billion OneBeacon book of business in 2003. RAM, which sells personal and commercial insurance exclusively through independent agents, has nearly doubled in size in less than five years. And today, it's an important and growing member of the Liberty Mutual family, contributing significantly to both revenue and earnings growth.

Liberty International, which has averaged 2.5 acquisitions and 19 percent net premium growth per year since 1998, continued to grow both organically and through acquisitions. In Spain, we acquired Met Life's personal auto business in 2004, and our three recent Spanish acquisitions now make us the country's second-largest direct auto writer. We also acquired Winterthur's insurance operations in Portugal, marking our entry into that southern European nation.

On the other side of the world, Liberty Mutual became the first foreign property and casualty insurance company in western China when we started doing business in Chongqing, a city of 31 million people. This development, combined with the honor of hosting a luncheon for Chinese Premier Wen Jiabao in Boston, is a significant milestone for our company, and we look forward to a long and mutually beneficial relationship with China and its people.

The combination of organic growth and acquisitions has made Liberty Mutual the fifth-largest property and casualty insurer in the United States and the second-largest U.S.-based international property and casualty insurer, with operations in 17 foreign countries. Signifying how much our company has changed, 44 percent of our consolidated revenue in 2003 came from businesses we were not even in ten years ago.

While proud of our strong financial and competitive position, we're well aware that challenges persist.

On the investment front, we continue to face ever-lower interest rates, putting downward pressure on investment income, despite very strong cash flow. Among other things, this translates into lower discount rates used for pricing our products, so we need higher prices

than would be the “more normal” case. To improve overall investment results and to provide a hedge against inevitable higher future inflation, we continue to develop disciplined investment programs in the higher-yield areas of the market.

The activity in the industry and the level of attention paid to asbestos reserve increases has increased the financial market’s interest in Liberty Mutual. We welcome this interest, but we were somewhat concerned to find the degree to which the market lacked an understanding of our company. This deficiency led to investment spreads in our outstanding surplus notes vastly in excess of what was economically appropriate when compared to our performance and that of our competitors. To address this issue, we have increased our communication with the investment community — a somewhat unusual act for a mutual company — and hired a director of investor relations. By focusing more resources on financial communications, we’re strengthening our ties to the financial community and improving how we work with capital market participants. Over time, we will be more comfortable in this new world.

Our employees’ knowledge and understanding of our business, their willingness to learn from each other, their ability to adjust to a changing and competitive environment and, most of all, their commitment to our policyholders and customers, put us in the enviable position we maintain today. It is with extraordinary pride that I thank them for their efforts.

Our success at both the strategic and tactical levels is a direct result of the efforts of our 38,000 employees worldwide. Simply put, we predicate our business model on the goal of ensuring that, when a person in any part or level of the company picks up the phone and says, “Liberty Mutual. How can I help you?”, they both mean it, and have the skills and technology to do it.

Our employees’ knowledge and understanding of our business, their willingness to learn from each other, their ability to adjust to a changing and competitive environment and, most of all, their commitment to our policyholders and customers, put us in the enviable position we maintain today. It is with extraordinary pride that I thank them for their efforts.

As always, I also thank you, our customers and policyholders, for your business over the past year. I also thank our Board of Directors and our 29 Advisory Boards for their collective experience and advice, which keep us focused on serving you.

Edmund F. Kelly
Chairman, President and Chief Executive Officer

AN OVERVIEW

LIBERTY MUTUAL GROUP is a diversified international group of insurance companies. As of December 31, 2003, Liberty Mutual had $64.4 billion in consolidated assets and $16.6 billion in consolidated revenue. The Company ranks 116 on the Fortune 500 list of largest U.S. corporations, and it is the eighth-largest personal lines writer and the fifth-largest commercial lines writer in the U.S., based on 2003 direct written premium. Headquartered in Boston, Massachusetts, the Company employs 38,000 people in more than 900 offices throughout the world.

	2003	2002	2001
Revenue	$16.6 billion	$14.3 billion	$12.8 billion
Pre-Tax Operating Income	$405 million	$492 million	$(1.7) billion
Total Assets	$64.4 billion	$55.9 billion	$53.1 billion
Cash Flow from Operations	$2.7 billion	$1.3 billion	$(46) million
GAAP Combined Ratio	104.4 percent	106.3 percent	128.1 percent
Policyholders' Equity	$7.4 billion	$6.4 billion	$5.9 billion

2003 RESULTS Liberty Mutual Group revenue for 2003 increased 16 percent over 2002. The acquisition of the Prudential Financial personal lines business, the growth of Liberty International Underwriters, the integration of OneBeacon business, and rate increases across all lines of business accounted for much of the increased revenue. Net investment income increased by $172 million to $1.8 billion, and cash flow from operations was $2.7 billion, an increase of 113 percent over 2002. Pre-tax operating income for 2003 was $405 million, a decrease of $87 million from 2002. The Group's GAAP property and casualty combined ratio improved by 1.9 points to 104.4 percent, and statutory surplus increased by approximately $2 billion to $7.2 billion. In 2003, Liberty Mutual completed a ground-up study of asbestos reserves, including an allowance for reinsurance on unpaid asbestos losses, and strengthened its asbestos reserves by $331 million.

LINES OF BUSINESS

Liberty Mutual Group operates through four strategic business units with no single unit contributing more than 30 percent of net premium written:

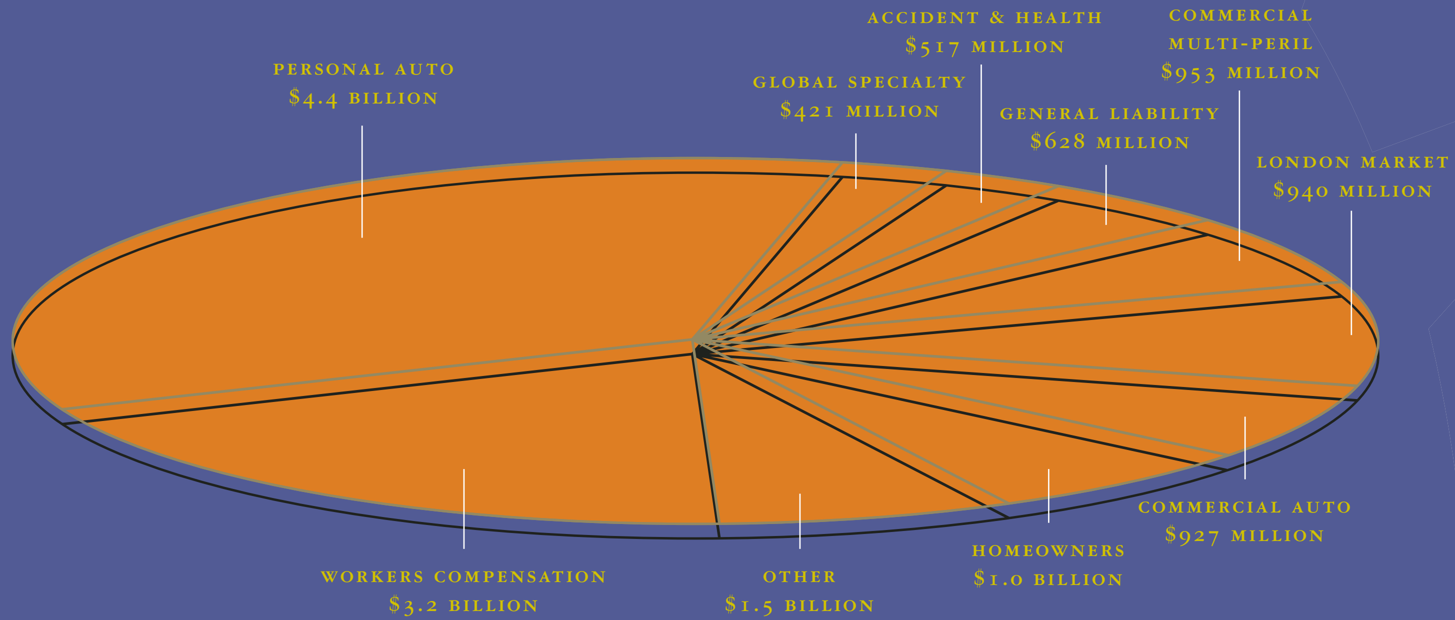
PERSONAL MARKET Personal Market sells full lines of coverage for homeowners, automobiles, valuable possessions and personal liability through its own sales force, three direct response centers, Prudential agents and the internet. It also offers a wide range of traditional and variable life insurance and annuity products. Personal Market's largest source of new business is its more than 8,300 affinity group relationships, including employers, credit unions, and professional and alumni associations.

COMMERCIAL MARKETS Commercial Markets provide sophisticated risk and disability management and risk transfer services under such well-known brand names as Liberty Mutual and Wausau. These commercial insurance operations provide a wide-range of products and services, including workers compensation, general liability (including product liability), commercial automobile, property, bonds, and wrap-ups for large construction projects. They also provide short- and long-term disability products and services, group life insurance and FMLA administration.

REGIONAL AGENCY MARKETS Regional Agency Markets (RAM) is a group of locally branded, regional property and casualty insurance companies that distribute their products and services exclusively through independent agents and brokers. Concentrating on small commercial and personal lines, the RAM regional companies are America First, Colorado Casualty, Golden Eagle, Hawkeye-Security, Indiana, Montgomery and Peerless. RAM also includes two specialty companies: Summit Holding Southeast, which provides workers compensation products and services, primarily in Florida; and GoAmerica Auto Insurance, which offers non-standard automobile insurance. The financial results of Liberty Northwest, a separately managed multi-line insurer providing an array of personal and commercial lines in the Pacific Northwest and Alaska, are also included in RAM.

LIBERTY INTERNATIONAL Liberty International provides personal and small commercial lines insurance through operations in Argentina, Brazil, China, Colombia, Hong Kong, Portugal, Singapore, Spain, Thailand and Venezuela. Liberty International Underwriters, a global specialty lines insurance and reinsurance business, writes casualty, specialty casualty, marine, energy, engineering and aviation lines of insurance through offices in Asia, Australia, Europe and North America. Lloyd's of London Syndicates 190 and 282 write both marine and non-marine insurance and reinsurance business on a worldwide basis.

NET WRITTEN PREMIUM BY PRODUCT LINE > 2003



PERSONAL MARKET

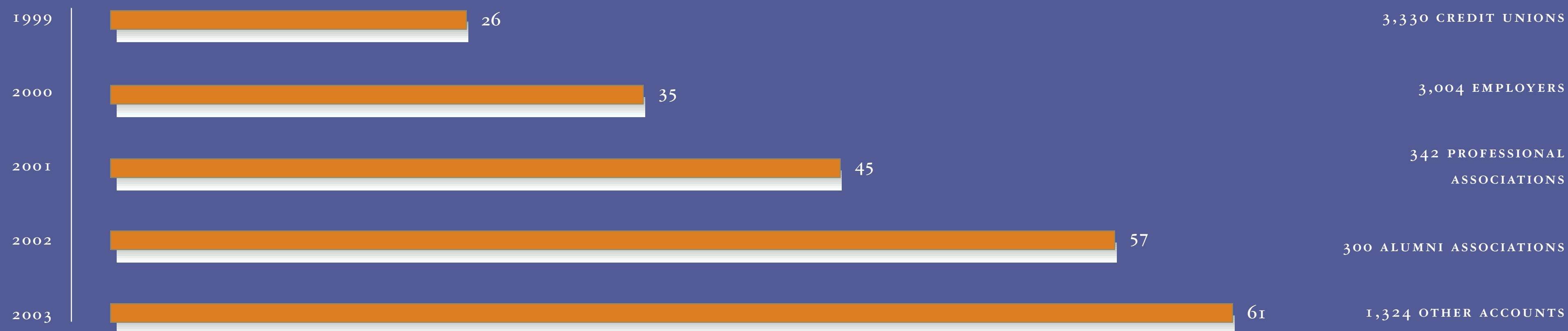
PERSONAL MARKET delivers auto, home, life and other personal insurance products using a unique multiple-channel distribution strategy. This business ended 2003 with revenue of $4.7 billion, pre-tax operating income of $397 million and a 97.9 percent combined ratio. Contributing to this strong performance were record auto and homeowner sales, a customer retention rate that exceeded 90 percent, and premium rate increases. Personal Market also acquired Prudential Financial's property and casualty insurance business ("PruPac") in late 2003, and the financial results include two months of PruPac results.

The PruPac acquisition, which included operations in 47 states, makes Liberty Mutual the eighth-largest writer of personal lines P&C insurance in the U.S., based on 2003 direct written premium. The acquisition provided Personal Market with $1.1 billion of premium and a new channel of distribution: 2,700 Prudential life insurance agents. Further sharpening focus on its profitable U.S. operations, Personal Market announced in January 2004 an agreement to sell its Canadian personal lines property and casualty operations to Meloche Monnex, Inc.

Historically almost exclusively dependent on a captive sales force, Personal Market has successfully diversified its distribution network over the last several years. Today, telephonic direct response sales centers, Prudential's exclusive agents and the internet complement the proven effectiveness of the Personal Market's 1,100 sales reps, who work out of 360 local offices. Critical to the success of the multi-channel distribution strategy has been Personal Market's affinity marketing program. In fact, Personal Market's more than 8,300 sponsoring affinity groups — employers, credit unions, and professional and alumni associations — account for almost 70 percent of new business sales.

BY THE NUMBERS > 11,800 EMPLOYEES; 1,100 FIELD SALES REPS; 8,300 AFFINITY RELATIONSHIPS; 322 TELESALES COUNSELORS; 2,700 PRUDENTIAL LIFE INSURANCE AGENTS; 4.5 MILLION AUTO AND HOME POLICIES

AFFINITY MARKETING GROWTH > ELIGIBLE POPULATION (IN MILLIONS)



	2003	2002	2001
Revenue	$4.7 BILLION	$4.2 BILLION	$3.7 BILLION
Pre-Tax Operating Income	$397 MILLION	$342 MILLION	$24 MILLION
Cash Flow from Operations	$985 MILLION	$853 MILLION	$346 MILLION
GAAP Combined Ratio	97.9 PERCENT	99.9 PERCENT	106.8 PERCENT
Policies in Force	4,471,070	3,138,640	3,115,947

J. PAUL CONDRIN III > EXECUTIVE VICE PRESIDENT

The rationale behind Personal Market's distribution network proved itself in 2003 with both its local sales force and direct response centers reporting record sales. The local sales force sold 333,000 new business policies, a 22 percent improvement over 2002, while the direct response centers in Phoenix, Ariz., and Orlando, Fla., sold 123,000 new business policies, or 55 percent more than a year ago. On the life insurance side, Personal Market sold $164 million of life insurance through its bank distribution channel, 46 percent more than a year ago. In fact, Liberty Mutual is one of the leaders in selling life insurance products through banks.

Whatever the distribution channel, Personal Market's strategy is to provide fairly priced and comprehensive products that meet its customers' needs and exceed their service expectations. Whether it be a visit to a local office, a telephone call, written correspondence, or the submission of a claim via the internet, the goal is for every interaction to be a favorable one. Personal Market's customer service ratings continue to improve each year, thanks most recently to the increased service rep availability and responsiveness gained through new phone systems and other technological enhancements, but we can and will do even better.

With its continued focus on customer service, proactive safety education and community commitment, Personal Market's longer-term goal is continued growth and recognition as the premier provider of personal lines insurance.

Underlying this service emphasis is Personal Market's proactive approach to helping its customers live safer more secure lives. For example, for the past 30 years, *Liberty Lines*, Personal Market's consumer magazine, has furnished Liberty Mutual policyholders with the latest facts and advice related to auto and home safety. Since 1992, Personal Market has partnered with SADD (Students Against Destructive Decisions) to tackle teen safety, an important issue facing Liberty Mutual customers. And the new Liberty Mutual Rewards program provides value-added discounts on auto- and home-related products and services, along with safety and maintenance information.

Personal Market employees are also deeply committed to the communities in which they conduct business. In 2003 alone, the Personal Market conducted hundreds of educational seminars across the country that promote safe driving, identity theft prevention and other useful topics. And, in 2004, we will proudly unveil a fire safety exhibit at Epcot® at Walt Disney World® Resort, where guests will participate in an interactive exhibit, called "Where's the Fire," to learn about common and uncommon causes of household fires and how to prevent them from occurring.

With its continued focus on customer service, proactive safety education and community commitment, Personal Market's longer-term goal is continued growth and recognition as the premier provider of personal lines insurance.

COMMERCIAL MARKETS

COMMERCIAL MARKETS ended 2003 with strong growth, excellent cash flow and solid earnings, driven by continued disciplined underwriting, double-digit rate increases, strong customer retention and selective new business growth. This group of businesses concluded the year with pre-tax operating income of $412 million, revenue of $5.3 billion, cash flow of $832 million, and a 106.1 percent combined ratio. Well-established as a leading workers compensation insurance provider, Commercial Markets placed renewed emphasis in 2003 on growing its commercial property, auto and liability lines.

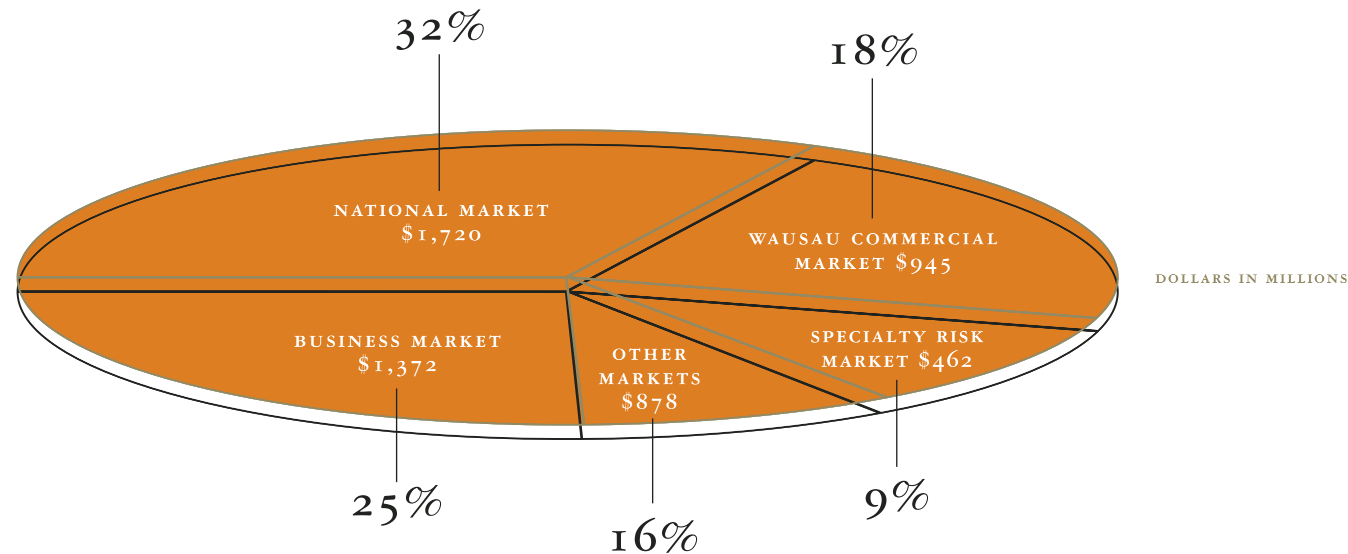
Organized into distinct operating units — National, Business, Wausau, Specialty Risk and Group Markets — each provides high-quality products and services to clearly defined customer segments through its chosen distribution channels. All share the singular goal of lowering their customers' overall cost of risk through the dedicated efforts of a highly skilled workforce using effective, efficient technology.

BY THE NUMBERS > 10,600 EMPLOYEES; 525 ACCOUNT EXECUTIVES; 700,000 CLAIMS CALL CENTER CALLS; 500 NATIONAL CUSTOMERS; 10,000 MIDDLE-MARKET CUSTOMERS; 440 LOSS PREVENTION CONSULTANTS; $1.1 BILLION IN MEDICAL BILL REVIEW SAVINGS; 5,000 CUSTOMER EXTRANET PORTALS

Some tools that help them do so are their extranet portals, customized and secure web sites that allow Commercial Markets businesses and their customers to exchange information and transact business over the internet. National Market, for example, has more than 450 customer sites and 3,600 individual users. Liberty Mutual Business Direct, the Business Market portal, has 3,500 sites serving 60 percent of its customers.

The typical National Market customer has multi-state operations and annual premium in excess of $2.5 million. Serving them are National Market's 50 account executives, working in cooperation with the customer's brokers and advisers. National Market net written premium increased 16 percent to $1.2 billion due to rate increases and higher new business levels across all major products: workers compensation, commercial automobile, general liability and umbrella. Premium retention increased to 86.6 percent from 85.8 percent in 2002.

COMMERCIAL MARKETS P&C DIRECT WRITTEN PREMIUM DIVERSIFICATION BY BUSINESS UNIT > 2003



Business Market uses its own sales force of approximately 320 licensed sales representatives to sell to middle-market businesses; those with all-lines annual premium between $75,000 and $2.5 million. Its 2003 net written premium increased 20 percent to $1.2 billion, reflecting strong new premium growth, rate increases and lower reinsurance premium. Wausau Commercial Market, which distributes its products and services to middle-market businesses through approximately 270 independent brokers and agents, and its own 130 licensed sales agents, increased its net written premium by 18 percent to $839 million in 2003 due to rate increases and lower reinsurance premium.

Specialty Risk Market, which includes Liberty Mutual Property, Liberty Mutual Surety and Captive Services, uses National, Business and Wausau distribution channels, as well as its own broker channels, to provide property insurance, surety and fidelity bonds, and captive programs to a wide range of customers. Its 2003 net written premium increased 19 percent to $311 million. Group Market, which sells group life and disability products through a direct sales force working with brokers and benefits consultants, increased its net written premium by three percent to $331 million.

Each unit's operating performance in 2003, the significant momentum they have in their expanding distribution capabilities, their underwriting expertise, and their top-tier customer service and loss management capabilities position Commercial Markets to succeed in any market environment.

GARY R. GREGG > EXECUTIVE VICE PRESIDENT

	2003	2002	2001
Revenue	$5.3 BILLION	$4.6 BILLION	$4.3 BILLION
Pre-Tax Operating Income	$412 MILLION	$447 MILLION	$(879) MILLION
Cash Flow from Operations	$832 MILLION	$221 MILLION	$(504) MILLION
GAAP Combined Ratio	106.1 PERCENT	107.9 PERCENT	148.2 PERCENT

REGIONS:

MID-ATLANTIC: DELAWARE, MARYLAND, NEW JERSEY, NEW YORK, PENNSYLVANIA, WASHINGTON, D.C.

MIDWEST: ILLINOIS, INDIANA, IOWA, KANSAS, MICHIGAN, MINNESOTA, MISSOURI, NEBRASKA, NORTH DAKOTA, OHIO, SOUTH DAKOTA, WISCONSIN

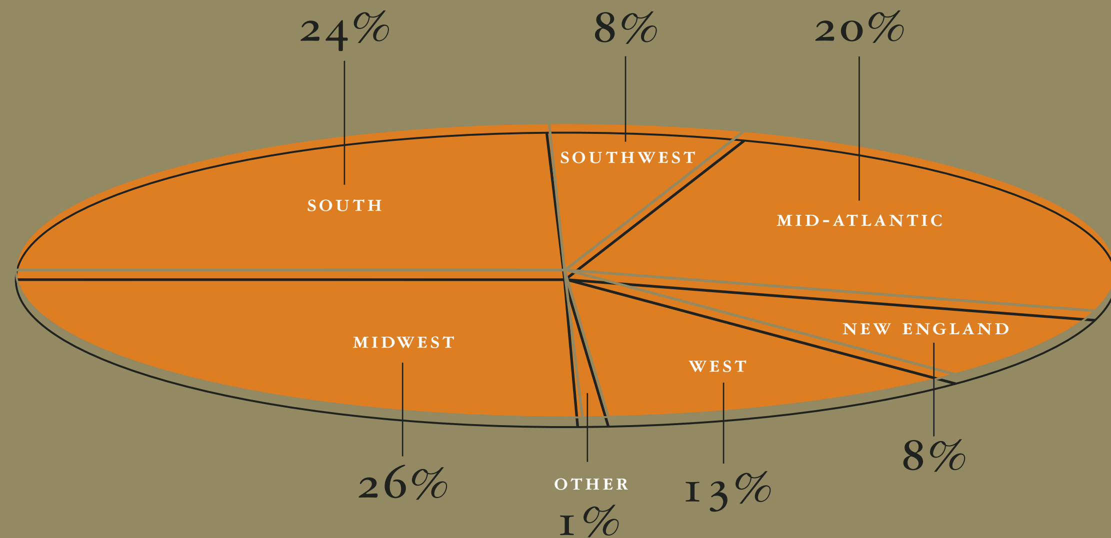
NEW ENGLAND: CONNECTICUT, MAINE, MASSACHUSETTS, NEW HAMPSHIRE, RHODE ISLAND, VERMONT

SOUTH: ALABAMA, ARKANSAS, FLORIDA, GEORGIA, KENTUCKY, LOUISIANA, MISSISSIPPI, NORTH CAROLINA, SOUTH CAROLINA, TENNESSEE, VIRGINIA, WEST VIRGINIA

SOUTHWEST: ARIZONA, NEW MEXICO, OKLAHOMA, TEXAS

WEST: ALASKA, COLORADO, CALIFORNIA, HAWAII, IDAHO, MONTANA, NEVADA, OREGON, UTAH, WASHINGTON, WYOMING

COMMERCIAL MARKETS P&C DIRECT WRITTEN PREMIUM DIVERSIFICATION BY REGION



REGIONAL AGENCY MARKETS

REGIONAL AGENCY MARKETS Established just five years ago, Regional Agency Markets' (RAM) significant growth, both organic and through acquisitions, has made it a significant contributor among Liberty Mutual Group's four strategic business units, contributing 20 percent of revenue in 2003.

During 2003, RAM effectively and efficiently completed the integration of its most recent acquisition, the $1 billion OneBeacon book of business acquired in late 2001, and ended the year with $3.4 billion in revenue, $302 million in pre-tax operating income, cash flow of $802 million and a 100.6 percent combined ratio. Contributing to these positive results, which include Liberty Northwest, a separately managed multi-line insurer, were significant price increases and disciplined underwriting.

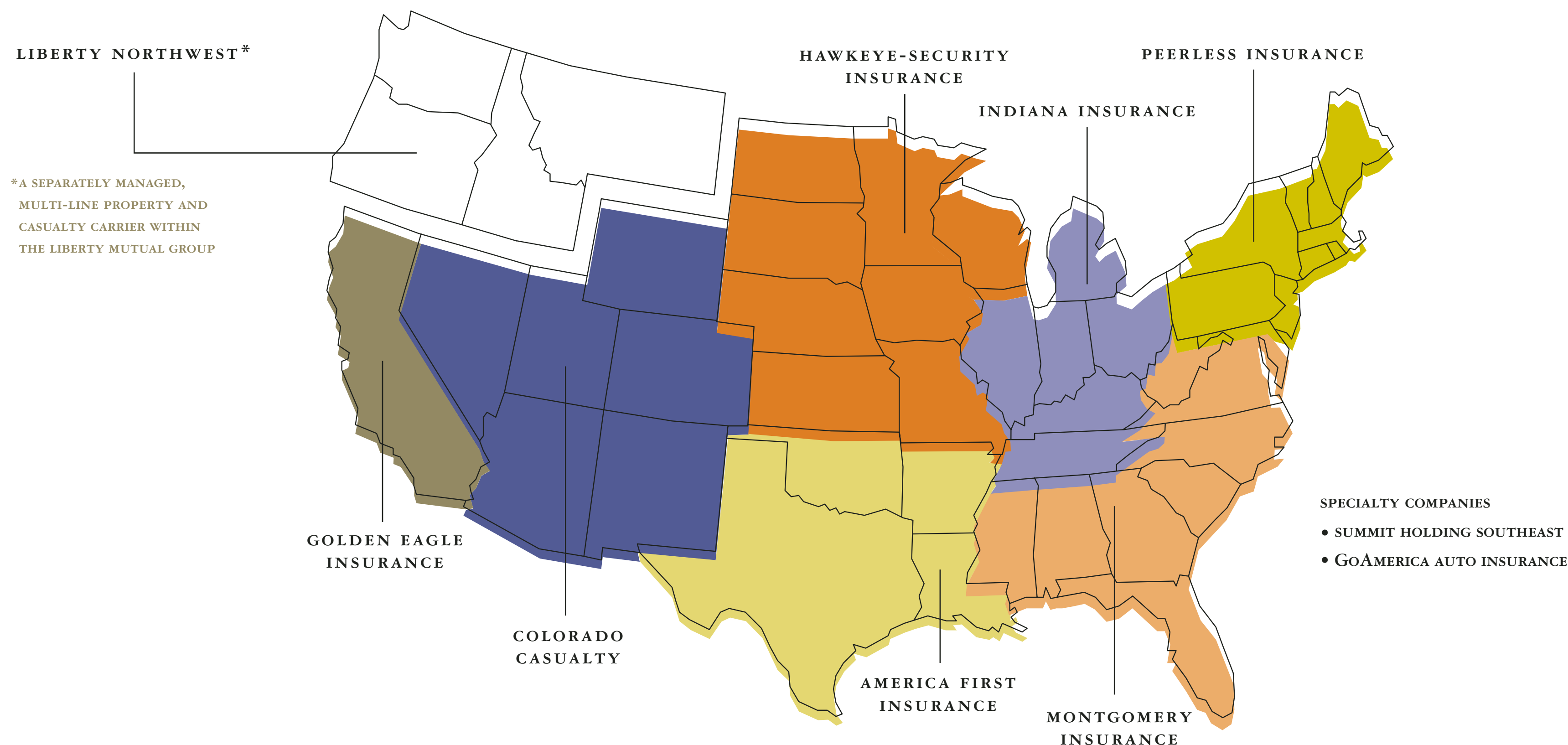
RAM's seven regionally branded and two specialty companies, which operate across 44 states (see map), provide personal and small-to-mid-size commercial insurance products exclusively through more than 5,000 independent agents and brokers. Each of these companies demonstrated an ability to grow profitably in 2003 by combining its local knowledge, decision-making, marketing and claims handling with the financial stability and cost efficiencies of Liberty Mutual Group.

BY THE NUMBERS > 5,400 EMPLOYEES; 5,000 INDEPENDENT AGENT AND BROKER RELATIONSHIPS; 2.1 MILLION "HITS" TO AGENCY PORTALS; 1.5 MILLION POLICIES IN FORCE; $5,000 AVERAGE COMMERCIAL POLICY PREMIUM; TOP THREE CARRIER WITH 70% OF ITS AGENCIES

As significant agency consolidation continues in the market, RAM's focus on "ease of doing business" through the effective use of technology makes it an attractive insurance carrier for these larger, multi-line agencies. For example, RAM's increasingly sophisticated agency web portals allow its agents to obtain real-time quotes, submit applications, report and monitor claims, make billing inquiries and much more — electronically over the internet. In fact, RAM agents submitted 83 percent of their small commercial business through these portals in 2003. RAM company agency portals also automate delivery of policy, billing and claims information, and they allow agents and their customers to request loss control information specific to their needs.

Also contributing to RAM's success is an agency management model that prospects and appoints only the best agencies in RAM's marketing territories, then promotes strong business relationships through regular agency reviews, effective planning and performance monitoring. Using this model, RAM regional company employees ensure they meet both

REGIONAL AGENCY MARKETS OPERATING TERRITORY > 2003



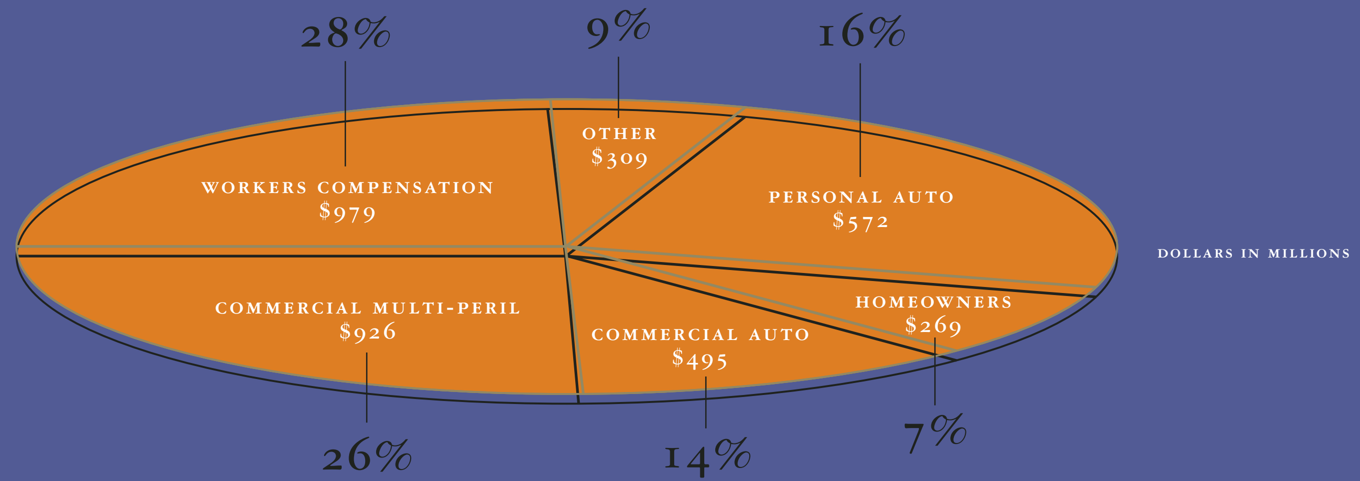
RAM's and the agent's expectations. To further strengthen its partner relationships, RAM trained more than 4,500 agents on industry topics and services during 2003. Using this robust agency management approach, the RAM regional companies compete for the best business available in their marketing territories.

RAM also attributes its strong reputation to its ability to respond quickly, fairly and professionally to policyholder loss. Understanding that the events leading to a claim are often traumatic, RAM trains its employees to alleviate policyholders' concerns, and promptly and fairly resolve their claims. This tradition of policyholder service gives families and businesses the confidence to recommend a RAM company to their relatives and friends.

In 2004, RAM will continue its strong performance in writing small-to-mid-size commercial lines, and improve its competitive position in agency personal lines. It will achieve this through strong execution of the fundamentals of agency management, disciplined pricing and underwriting, and superior customer service to both its agency customers and policyholders.

RAM DIRECT WRITTEN PREMIUM DISTRIBUTION BY LINE OF INSURANCE > 2003

INCLUDES LIBERTY NORTHWEST, A SEPARATELY MANAGED MULTI-LINE PROPERTY AND CASUALTY INSURER WITHIN THE LIBERTY MUTUAL GROUP.



DOLLARS IN MILLIONS

ROGER L. JEAN > EXECUTIVE VICE PRESIDENT

	2003	2002	2001
Revenue*	$3.4 BILLION	$2.9 BILLION	$2.4 BILLION
Pre-Tax Operating Income*	$302 MILLION	$160 MILLION	$(53) MILLION
Cash Flow from Operations*	$802 MILLION	$379 MILLION	$23 MILLION
GAAP Combined Ratio*	100.6 PERCENT	106.1 PERCENT	113.8 PERCENT

*INCLUDES LIBERTY NORTHWEST

LIBERTY INTERNATIONAL

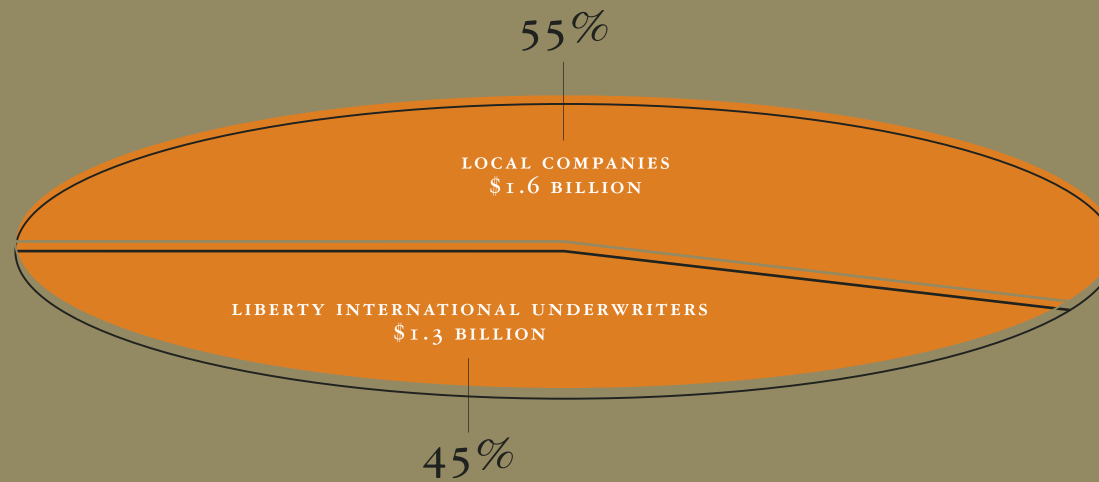
LIBERTY INTERNATIONAL had an excellent year in 2003, ending the year with $2.9 billion in revenue or 16 percent growth, pre-tax operating income of $130 million, superb cash flow, a combined ratio of 101.1 percent and solid market positioning. Established in 1994, Liberty International has two enviable franchises: one in its personal lines and small commercial business in selected countries; the other in its global specialty lines business. To further focus on its core personal, small commercial and global specialty lines, Liberty International exited the health business in Canada in 2003, realizing a significant gain on the sale of its portfolio there.

Liberty International's personal lines and small commercial business consists of ten significant in-country operations in nations with a large or growing middle class.

In Latin America, Liberty International has the largest insurance company in Venezuela, the largest property and casualty insurer in Colombia, and the second-largest workers compensation company in Argentina. In Colombia, Liberty continued to have superb results on all fronts, as it has in the past. In Venezuela, even in the midst of a contracting economy and challenging political circumstances, Liberty's business continued to grow and supply excess capital to its parent company. In Argentina, where Liberty International has both workers compensation and personal lines companies, Liberty is a profitable, significant player in the market, despite economic and political turmoil over the last three years. And in Brazil, a new management team has rebuilt the company so it can regain its meaningful position in the market.

BY THE NUMBERS > 5,600 EMPLOYEES; 2ND-LARGEST INTERNATIONAL U.S. P&C COMPANY; 4TH-LARGEST MANAGING AGENT IN LLOYDS; #1 RANKING IN COLOMBIA AND VENEZUELA; 1ST APPROVED FOREIGN INSURER IN WESTERN CHINA; 48.8% LIU'S AVERAGE ANNUAL GROWTH OVER 5 YEARS

LIBERTY INTERNATIONAL REVENUE BY LINE OF BUSINESS



THOMAS C. RAMEY > EXECUTIVE VICE PRESIDENT

	2003	2002	2001
Revenue	$2.9 BILLION	$2.5 BILLION	$2.1 BILLION
Pre-Tax Operating Income	$130 MILLION	$178 MILLION	$(412) MILLION
Cash Flow from Operations	$750 MILLION	$686 MILLION	$460 MILLION
GAAP Combined Ratio	101.1 PERCENT	102.8 PERCENT	126.0 PERCENT

In Southern Europe, Liberty International added to its business in Spain and, with the acquisition of MetLife's operations in January 2004, Liberty has quickly become a substantial national player in this mature market with more channels of distribution — direct sales, agents and brokers, and institutions such as banks and auto clubs — than any of its competitors. In Portugal, where Liberty acquired Winterthur's insurance operations, Liberty is rebuilding the company with a new management team and systems. In both Spain and Portugal, Liberty is among the top ten, having grown its top line in the aggregate by 34 percent in 2003.

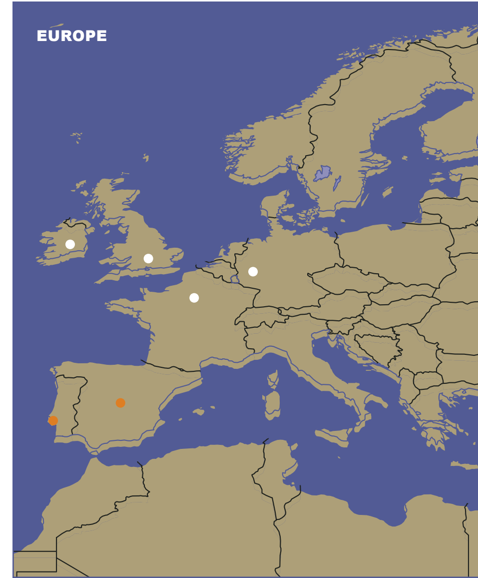
In Asia, Liberty International officially opened its office in Chongqing, China, where it sells insurance to foreign and local businesses operating in China, as well as a representative office in Hanoi, Vietnam. Both the Chinese and Vietnamese economies are doing extremely well, as is Thailand, where Liberty completed the integration of a recently acquired second company, making it number five in the market. In Singapore, net written premium increased 39 percent, while Hong Kong and Singapore together nearly doubled their bottom line over 2002.

In Latin America, Liberty International has the largest insurance company in Venezuela, the largest property and casualty insurer in Colombia, and the second-largest workers compensation company in Argentina.

Liberty International's global specialty lines business, Liberty International Underwriters (LIU), continued on a track of dramatic growth and very positive bottom-line contributions in 2003. Its gross written premium totaled $2.5 billion, a 36 percent increase over 2002, and its bottom line grew more than 250 percent. Of particular note was LIU's 32 percent gross written premium growth in the U.S., 46 percent growth in Lloyd's (Syndicates 190, 282), 27 percent growth in Liberty Mutual Europe, and 31 percent growth in the Asia-Pacific region. LIU's Lloyd's operation now ranks as the fourth-largest Managing Agent in Lloyd's, enhanced by Syndicate 190's opening of a Paris branch. Additionally, LIU's London-based Liberty Mutual Europe expanded operations to Cologne and Paris.

Liberty International has excellent momentum going into 2004. Extraordinary change continues to occur in the global insurance industry, including further consolidation. Liberty International, with its established operations, meaningful scale in targeted geographic markets, and its financial strength, is well positioned to continue to grow and further solidify its leadership position across the globe.

● **LOCAL COMPANIES** > ARGENTINA (BUENOS AIRES), BRAZIL (SAO PAULO), COLOMBIA (BOGOTA), HONG KONG, PORTUGAL (LISBON), SINGAPORE, SPAIN (MADRID), THAILAND (BANGKOK), VENEZUELA (CARACAS)



○ **LIU OFFICES** > BOSTON, MA; SYDNEY, AUSTRALIA; SAN FRANCISCO, CA; TORONTO, CANADA; PARIS, FRANCE; COLOGNE, GERMANY; CHICAGO, IL; DUBLIN, IRELAND; NEW YORK, NY; DALLAS, TX; LONDON, ENGLAND; SEATTLE, WA; SINGAPORE

★ **HEADQUARTERS** > BOSTON

● **LOCAL OFFICES** > SHANGHAI, CHONGQING, AND BEIJING, CHINA; HANOI, VIETNAM; MIAMI, FL

FINANCIAL STATEMENTS

consolidated balance sheets 28 | consolidated statements of income 29 | consolidated statements of changes in policyholders' equity 30 | consolidated statements of cash flows 31 | notes to consolidated financial statements 32 | report of management 52 | report of independent auditors 52 | board of directors 53 | officers 53 | advisory boards 55 | annual meeting 60

CONSOLIDATED BALANCE SHEETS

LIBERTY MUTUAL HOLDING COMPANY INC.

(DOLLARS IN MILLIONS) DECEMBER 31,	2003	2002
Assets:		
Investments		
Fixed maturities, available for sale, at fair value (amortized cost of $30,873 and $25,287)	$32,287	$26,968
Equity securities, available for sale, at fair value (cost of $813 and $768)	1,346	1,088
Trading securities, at fair value (cost of $203 and $233)	208	227
Other investments	768	675
Short-term investments	940	779
Total investments	35,549	29,737
Cash and cash equivalents	1,999	2,615
Premium and other receivables (net of allowance of $131 and $102)	5,238	4,525
Reinsurance recoverables (net of allowance of $306 and $82)	12,227	11,635
Deferred income taxes	860	614
Deferred policy acquisition costs	1,104	913
Goodwill and intangible assets	762	748
Prepaid reinsurance premiums	1,280	999
Other assets	3,183	2,204
Separate account assets	2,220	1,887
Total assets	$64,422	$55,877
Liabilities:		
Unpaid claims and claim adjustment expenses and future policy benefits:		
Property and casualty	$30,597	$27,475
Life	3,018	2,367
Other policyholder funds and benefits payable	2,090	1,843
Unearned premiums	7,431	5,952
Funds held under reinsurance treaties	1,902	1,917
Short-term debt	106	143
Long-term debt	1,668	1,250
Other liabilities and accrued expenses	8,009	6,596
Separate account liabilities	2,220	1,887
Total liabilities	57,041	49,430
Policyholders' Equity:		
Unassigned equity	6,194	5,343
Accumulated other comprehensive income	1,187	1,104
Total policyholders' equity	7,381	6,447
Total liabilities and policyholders' equity	$64,422	$55,877

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME

LIBERTY MUTUAL HOLDING COMPANY INC.

(dollars in millions) years ended december 31,	2003	2002	2001
Revenues			
Premiums earned	$13,956	$11,902	$10,537
Net investment income	1,762	1,590	1,557
Net realized investment gains	373	274	211
Fee and other revenues	527	524	499
Total revenues	16,618	14,290	12,804
Claims, Benefits and Expenses			
Benefits, claims and claim adjustment expenses	11,133	9,882	10,642
Insurance operating costs and expenses	2,569	1,848	1,943
Amortization of deferred policy acquisition costs	1,872	1,661	1,572
Dividends to policyholders	34	63	83
Other expenses	233	225	219
Total claims, benefits and expenses	15,841	13,679	14,459
Income (loss) from continuing operations before income tax expense, extraordinary gain, discontinued operations, and cumulative effect of change in accounting principle	777	611	(1,655)
Federal and foreign income tax expense	–	81	278
Income (loss) from continuing operations before extraordinary gain, discontinued operations, and cumulative effect of change in accounting principle	777	530	(1,933)
Extraordinary gain, net of tax	77	–	–
Discontinued operations, net of tax	(3)	(15)	(13)
Income (loss) before cumulative effect of change in accounting principle	851	515	(1,946)
Cumulative effect of change in accounting principle	–	(7)	–
Net income (loss)	$ 851	$ 508	$(1,946)

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN POLICYHOLDERS' EQUITY

LIBERTY MUTUAL HOLDING COMPANY INC.

(DOLLARS IN MILLIONS)	UNASSIGNED EQUITY	ACCUMULATED OTHER COMPREHENSIVE INCOME	POLICYHOLDERS' EQUITY
Balance, January 1, 2001	$6,781	$1,107	$7,888
Comprehensive income			
Net loss	(1,946)	–	(1,946)
Other comprehensive income (loss), net of taxes:			
Unrealized gains on securities	–	105	105
Less: reclassification adjustment for gains and losses included in net loss	–	(137)	(137)
Foreign currency translation adjustments	–	(25)	(25)
Other comprehensive loss, net of taxes	–	(57)	(57)
Total comprehensive loss			(2,003)
Balance, December 31, 2001	$4,835	$1,050	$5,885
Comprehensive income			
Net income	508	–	508
Other comprehensive income (loss), net of taxes:			
Unrealized gains on securities	–	238	238
Less: reclassification adjustment for gains and losses included in net income	–	(177)	(177)
Minimum pension liability	–	(12)	(12)
Foreign currency translation adjustments	–	5	5
Other comprehensive income, net of taxes	–	54	54
Total comprehensive income			562
Balance, December 31, 2002	$5,343	$1,104	$6,447
Comprehensive income			
Net income	851	–	851
Other comprehensive income (loss), net of taxes:			
Unrealized gains on securities	–	144	144
Less: reclassification adjustment for gains and losses included in net gain	–	(242)	(242)
Minimum pension liability	–	(13)	(13)
Foreign currency translation adjustments	–	194	194
Other comprehensive income, net of taxes	–	83	83
Total comprehensive income			934
Balance, December 31, 2003	$6,194	$1,187	$7,381

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

LIBERTY MUTUAL HOLDING COMPANY INC.

(DOLLARS IN MILLIONS) YEARS ENDED DECEMBER 31,	2003	2002	2001
Cash flows from operating activities:			
Net income (loss) from continuing operations	$ 777	$ 530	$ (1,933)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	130	154	187
Realized investment gains	(373)	(274)	(211)
Undistributed private equity investment loss	–	155	123
Premium, other receivables, and reinsurance recoverables	(779)	(1,518)	(1,874)
Deferred policy acquisition costs and distribution costs	(182)	(94)	(55)
Liabilities for insurance reserves	2,998	2,762	2,637
Taxes payable, net of deferred	(68)	54	54
Other, net	176	(509)	1,026
Total adjustments	1,902	730	1,887
Net cash provided by (used in) operating activities	2,679	1,260	(46)
Cash flows from investing activities:			
Purchases of investments	(26,384)	(15,392)	(10,802)
Sales and maturities of investments	23,432	13,912	11,188
Property and equipment purchased, net	(258)	(169)	(27)
Other investing activities	(225)	(30)	(138)
Net cash from acquisitions and dispositions	(346)	(6)	(32)
Net cash (used in) provided by investing activities	(3,781)	(1,685)	189
Cash flows from financing activities:			
Net activity in policyholder accounts	127	103	169
Debt financing, net	381	(185)	(443)
Net security lending activity	(23)	(48)	136
Other financing activities	–	(62)	(82)
Net cash provided by (used in) financing activities	485	(192)	(220)
Net cash provided by (used in) discontinued operations	1	1	(1)
Net decrease in cash and cash equivalents	(616)	(616)	(78)
Cash and cash equivalents, beginning of period	2,615	3,231	3,309
Cash and cash equivalents, end of period	$ 1,999	$ 2,615	$ 3,231
Supplemental disclosure of cash flow information:			
Income taxes paid	$ 27	$ 71	$ (11)

See accompanying notes to the consolidated financial statements

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Liberty Mutual Holding Company Inc. and its subsidiaries (collectively "LMHC" or the "Company"). Certain reclassifications have been made to the 2002 and 2001 consolidated financial statements to conform with the 2003 presentation. All material intercompany transactions and balances have been eliminated.

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The Company's principal estimates include (1) unpaid losses and loss expense reserves, including asbestos reserves, (2) reinsurance recoverables, including the bad debt allowance, (3) impairments to the fair value of the investment portfolio, (4) deferred acquisition costs, and (5) the valuation of goodwill. 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.

In 2001, Liberty Mutual Insurance Company ("LMIC") reorganized into a stock insurance company as part of an overall conversion to a mutual holding company structure. LMIC formed as its ultimate parent, LMHC, a Massachusetts mutual holding company. Additionally, as part of its reorganization, Liberty Mutual formed (i) LMHC Massachusetts Holdings Inc., a Massachusetts stock holding company ("LMHC MA") which is a direct, wholly-owned subsidiary of LMHC and (ii) Liberty Mutual Group Inc., a Massachusetts stock holding company ("LMGI") which is a direct wholly-owned subsidiary of LMHC MA and the direct parent of LMIC. In 2001, Employers Insurance of Wausau A Mutual Company ("EIOW") reorganized into a stock insurance company named Employers Insurance Company of Wausau ("EICOW") as part of an overall conversion to a mutual holding company structure. EICOW formed as its direct parent, Employers Insurance of Wausau Mutual Holding Company, a Wisconsin mutual holding company ("EIOW MHC").

In March 2002, the final step in a series of reorganization transactions was completed in which (a) EIOW MHC merged with LMHC, with LMHC as the surviving entity, and EICOW became a wholly-owned stock subsidiary of LMGI; and (b) Liberty Mutual Fire Insurance Company ("Liberty Fire") reorganized from a Massachusetts mutual insurance company to a Massachusetts stock insurance company and Liberty Fire became a wholly-owned stock subsidiary of LMGI.

Nature of Operations

The Company conducts substantially all of its business through four strategic business units: Commercial Markets, Personal Market, Regional Agency Markets ("RAM") and International.

The Commercial Markets business unit is organized into separate marketing and underwriting groups, each of which focuses on a particular customer base, product grouping, or distribution channel to provide tailored products and services that specifically address customers' needs.

The Commercial Markets business unit includes National Market, Business Market, Wausau Commercial Market and Specialty Risks (includes Commercial Property and Surety) and Group Market. The Commercial Markets coverages include workers compensation, commercial automobile, general liability, including product liability, multiple peril, group disability and life insurance, property, surety and a variety of other coverages.

The Company's Personal Market business unit writes virtually all types of property and casualty insurance covering personal risks. In September 2003, the Company decided to exit the Canadian personal lines market. The transaction is expected to close, without significant change, in the first half of 2004. All Canadian business related to the Personal Market has been reported in discontinued operations and excluded from operating results.

Started in 1997, RAM consists of regional property and casualty insurance companies distributing their products and services primarily through independent agents and brokers throughout the United States. RAM provides workers compensation, property, commercial automobile and general liability coverages to small businesses, as well as personal lines coverages (primarily personal automobile and homeowners) to individuals. RAM also includes two specialty operations: Summit Holding Southeast Inc., provides workers compensation products and services (primarily in Florida) and GoAmerica Auto Insurance, offers non-standard automobile insurance (primarily in the Midwest).

The Company's International business unit consists of the global specialty business, known as Liberty International Underwriters ("LIU"), and local personal and commercial businesses, primarily property and casualty. LIU is comprised of global specialty commercial insurance and reinsurance with operations, principally based in the U.S., Canada, Australia, Singapore and in the London and European markets. London and European operations consist of Liberty Mutual Insurance Europe Ltd. with branches in Dublin, Paris and Cologne and Lloyd's of London, Syndicates 190 and 282 with branches in Paris and Cologne. International distributes its LIU global specialty commercial insurance and reinsurance products exclusively through the broker distribution channel. LIU provides a variety of specialty products including casualty, marine, engineering, energy, directors and officers, errors and omissions, aviation, property and professional liability insurance together with multi-line insurance and reinsurance including property catastrophe reisurance, written through Lloyd's of London. International also operates local insurance operations consisting of local companies selling traditional property, casualty and life insurance products to individuals and businesses in several nations with a large and growing middle class, including countries in South America, Asia and Southern Europe.

Adoption of New Accounting Standards

Effective January 1, 2001, the Company adopted Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards No. 133, *"Accounting for Derivative Instruments and Hedging Activities"* ("FAS 133"). FAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the consolidated balance sheet and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically identified as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or unrec-

ognized firm commitment, (b) a hedge of the exposure to variable cash flows of a recognized asset or liability or of a forecasted transaction, or (c) a hedge of the foreign currency exposure of a net investment in foreign operation, an unrecognized firm commitment, an available-for-sale security, or a foreign currency denominated forecasted transaction. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation.

As a result of adopting FAS 133, the Company recorded, after tax, net of related effects of deferred policy acquisition costs and minority interest, a charge of $38 reflected as a cumulative catch-up adjustment in the consolidated statement of income. The charge was related to Liberty Financial Companies, Inc. ("LFC") and included in the discontinued operations results for the year ended December 31, 2001.

In April 2003, the FASB issued Statement of Financial Accounting Standards No. 149, *"Amendment of Statement 133 on Derivative Instruments and Hedging Activities"* ("FAS 149"). FAS 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under Statement of Financial Accounting Standards No. 133, *"Accounting for Derivative Instruments and Hedging Activities"* ("FAS 133"). FAS 149 (1) clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative as discussed in Statement 133, (2) clarifies when a derivative contains a financing component, and (3) amends the definition of an underlying to conform it to language used in FASB Interpretation No. 45, *"Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others"*. The Company adopted FAS 149 effective June 1, 2003. The Statement did not have a material impact on the Company's results of operations, financial condition or liquidity.

In January 2001, the Emerging Issues Task Force ("EITF") issued EITF 99-20, *"Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets."* EITF 99-20 provides guidance on the recognition and measurement of interest income and impairment of certain investments (e.g., certain asset-backed securities). All securities that represent beneficial interests in securitized assets, other than high credit quality securities, are adjusted using the prospective method when there is a change in estimated future cash flows. If it is determined that a decline in fair value is other-than-temporary, the cost basis of the security is written down to the discounted fair value. The Company adopted EITF 99-20 in 2001 which did not have a material impact on the Company's results of operations, financial condition or liquidity.

In June 2001, the FASB issued Statements of Financial Accounting Standards No. 142, *"Goodwill and Other Intangible Assets"* ("FAS 142"). FAS 142 requires companies to perform annual reviews for impairment of goodwill and indefinite lived intangible assets. Impairment exists when the carrying value of the goodwill or intangible assets exceeds the fair value, which is determined based on quoted market prices, discounted cash flows or appraised values. Under the transition provisions of FAS 142, the Company recognized an impairment loss of $7 during 2002 as a cumulative effect of change in accounting principle in the consolidated statements of income.

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 143, *"Accounting for Asset Retirement Obligations"* ("FAS 143"). FAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and subsequently amortized into expense. The Company adopted FAS 143 effective January 1, 2003. The Statement did not have a material impact on the Company's results of operations, financial condition or liquidity.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144, *"Accounting for the Impairment or Disposal of Long-lived Assets"* ("FAS 144"). FAS 144 establishes a single accounting model for long-lived assets. A long-lived asset classified as held for sale is to be measured at the lower of its carrying amount or its fair value less cost to sell and depreciation (amortization) ceases. Impairment is recognized only if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows and is measured as the difference between the carrying amount and the fair value of the asset. Long-lived assets to be abandoned, exchanged for a similar productive asset, or distributed to owners in a spin-off are generally considered held and used until disposed of. Accordingly, discontinued operations are no longer to be measured on a net realizable basis and future operating losses are no longer recognized before they occur. The Company adopted FAS 144 effective January 1, 2002. The Statement did not have a material impact on the Company's results of operations, financial condition or liquidity.

In April 2002, the FASB issued Statement of Financial Accounting Standards No. 145, *"Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections"* ("FAS 145"). FAS 145 rescinds FAS 4, *"Reporting Gains and Losses from Extinguishment of Debt, an Amendment of APB Opinion 30"*, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income taxes. As a result, the criteria in Opinion 30, *"Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions"*, will now be used to classify those gains and losses. FAS 145 also amends FAS 13, *"Accounting for Leases,"* to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. The Company adopted FAS 145 on January 1, 2003. The Statement did not have a material impact on the Company's results of operations, financial condition or liquidity.

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146, *"Accounting for Costs Associated with Exit or Disposal Activities"* ("FAS 146"). FAS 146 nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, *"Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)."* The principal difference between FAS 146 and EITF 94-3 relates to its requirements for recognition of a liability for a cost associated with an exit or disposal activity. Under FAS 146, a liability for a cost associated with an exit or disposal activity is recognized when the liability is incurred. Under EITF 94-3, a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. FAS 146 also establishes fair value as the basis for initial measurement of the liability. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002. The Company adopted FAS 146 on January 1, 2003. The Statement did not have a material impact on the Company's results of operations, financial condition or liquidity.

In November 2002, the FASB issued Interpretation No. 45, *"Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of the Indebtedness of Others"* ("FIN 45"). Along with new disclosure requirements, FIN 45 requires guarantors to recognize, at the inception of certain guarantees, a liability for the fair value of the obligation undertaken in issuing the guarantee. This differs from the current practice to record a liability only when a loss is probable and reasonably estimable. The recognition and measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The Company adopted FIN 45 on January 1, 2003. The implementation of FIN 45 did not have a material impact on the Company's results of operations, financial condition or liquidity.

In December 2003, the FASB issued Staff Position 106-1, *"Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003"* (*"FSP 106-1"*). FSP 106-1 permits deferral of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 as a one-time election. The election to defer cannot be changed and continues to apply until authoritative guidance on the accounting for the Federal subsidy is issued or until, subsequent to January 31, 2004, but prior to the issuance of additional authoritative guidance, a significant event occurs that would call for remeasurement of a plan's assets and obligations. The Company elected to defer FSP 106-1. Specific authoritative guidance on the accounting for the Federal subsidy is pending and that guidance, when issued, could require the Company to change previously reported information.

In November 2003, the EITF reached a consensus on the disclosures required for other-than-temporary impairments and continued their discussions on an other-than-temporary impairment model outlined in EITF Issue 03-1, *"The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments"* ("EITF 03-1"). EITF 03-1 requires investors to disclose quantitative information about the (a) aggregate amount of unrealized losses, (b) the aggregate related fair values of investments with unrealized losses, segregated into less than and greater than 12 months categories and (c) qualitative information that supports their conclusion that the impairments noted in the quantitative disclosures are not other-than-temporary. The disclosure provisions of EITF 03-1 apply to fiscal years ending after December 15, 2003. The Company has disclosed the required information in Note 4.

In December 2003, the FASB issued Statement of Financial Accounting Standards No. 132R, *"Employers' Disclosures about Pension and Other Postretirement Benefit Obligations"* ("FAS 132R"). This Statement requires additional disclosures to those in the original FAS 132 about assets, obligations, cash flows, and net period benefit cost of defined benefit pension plans and other defined benefit postretirement plans. FAS 132R is effective for public reporting entities with fiscal years ending after December 15, 2003. The Company adopted FAS 132R early and has included the new disclosures in Note 11.

Future Adoption of New Accounting Standards

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 and is effective in 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 must be applied in 2005.

The Company is continuing to evaluate the impact of FIN 46 for VIEs created or acquired prior to December 31, 2003. The Company's primary exposure to FIN 46 and VIEs relates to investments in venture capital and private equity limited partnerships that are accounted for under the equity method. The Company estimates that total assets will increase by approximately $89 in 2005 for VIEs where the Company is deemed to be the primary beneficiary. The Company's maximum exposure to losses from these VIEs is approximately $46 and there is no recourse provision to the general credit of the Company beyond the full amount of the Company's loss exposure.

In July 2003, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants ("AcSEC") issued Statement of Position 03-1, *"Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts"* ("SOP 03-1"). The purpose of the SOP is to provide a conceptual framework that will facilitate the determination of the proper accounting for various life and annuity products. The most significant requirements of the SOP are: (i) the reporting and measurement of separate account assets and liabilities as general account assets and liabilities when specified criteria are not met, (ii) the capitalization of sales inducements that meet specified criteria and amortizing such amounts over the life of the contracts using the same methodology as used for amortizing deferred acquisition costs, but immediately expensing sales inducements accrued or credited if such criteria are not met, and (iii) the classification and valuation of certain nontraditional long-duration contract liabilities.

SOP 03-1 is effective January 1, 2004. Management is currently evaluating the impact of the adoption of SOP 03-1 and does not anticipate that its adoption will have a material impact on the Company's results of operations, financial condition or liquidity.

Investments

Available for sale: Fixed maturity securities classified as available for sale, are debt securities, that have fixed or variable principal payment schedules, held for indefinite periods of time, and are used as a part of the Company's asset/liability strategy or sold in response to risk/reward characteristics, liquidity needs or similar economic factors. These securities are carried at market value with the corresponding unrealized investment gains or losses, net of deferred income taxes, reported in accumulated other comprehensive income.

Equity securities classified as available for sale include common equities and non-redeemable preferred stocks and are reported at quoted market values. Changes in the market values of these securities, net of deferred income taxes, are reflected as unrealized investment gains or losses in accumulated other comprehensive income.

Trading securities: Trading securities are securities bought principally for the purpose of sale in the near term and are reported at market value. Changes in market value are recognized in income as realized gains or losses in the current period.

Realized gains and losses on sales of investments are recognized in income using the specific identification method. Unrealized losses that are other-than-temporary are recognized in income. 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 the 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.

For mortgage-backed fixed maturity securities, the Company recognizes income using a constant effective yield based on anticipated prepayments over the economic life of the security. The mortgage-backed portfolio is accounted for under the retrospective method and prepayment assumptions are based on market expectations. When actual prepayments differ significantly from anticipated prepayments, the effective yield is recalculated to reflect actual payments to date and anticipated future payments and any resulting adjustment is included in investment income.

Cash equivalents are short-term, highly liquid investments that are both readily convertible into known amounts of cash and so near to maturity that they present insignificant risk of changes in value due to changing interest rates. The Company's cash and cash equivalents include debt securities purchased with maturities of three months or less at acquisition and are carried at amortized cost that approximates fair market value.

Short-term investments are debt securities with maturities at acquisition between three months and one year, are considered available for sale and are carried at amortized cost, which approximates fair market value.

Other investments, principally investments in private equities through limited partnerships, are accounted for using the equity method unless the investment is so minor that the Company has no influence over partnership operating and financial policies. Investments in excess of three percent of a limited partnership are considered more than minor. If the private equity investment is considered minor, the investment is accounted for using the cost method.

Recognition of unrealized gains and losses of private equity investments are recorded consistent with the methodology used by the underlying private equity investment (income statement or policyholders' equity).

Derivatives

All derivatives are recognized on the balance sheet at fair value. On the date a contract is entered into, the Company designates the derivative as either (1) a hedge of a fair value of a recognized asset ("fair value hedge") or (2) an economic hedge ("non-designated derivative"). Changes in the fair value of a derivative that is highly effective and is designated and qualifies as a fair value hedge, along with the loss or gain on the hedged asset attributable to the hedged risk, are recorded in current period operations as a component of net investment income. Changes in the fair value of non-designated derivatives are reported in current period operations, as a component of net realized gains and losses and the derivative is included in other assets or liabilities.

In 2002 and 2001, the Company was party to derivative contracts in the form of equity swap contracts. Those contracts were terminated in 2002. The purpose of the contracts was to exchange rates of return of a specified set of common stocks for rates of return consistent with the broad equity markets as represented by the S&P 500 Index. The Company agreed with counter parties to exchange, at quarterly intervals, the net performance differential of the S&P 500 Index and notional portfolio of common stocks. Changes in the fair value were recognized in income from continuing operations.

The Company's foreign indirectly owned subsidiaries use various derivative instruments to hedge exposure against interest rates and equity market returns guaranteed by certain life products. In addition, there may be call, put or conversion options embedded in certain bonds it has purchased. The fair value of these derivative instruments is based on broker quotations.

Securities Lending

The Company participates in a securities lending program to generate additional income, whereby certain domestic fixed income securities are loaned for a short period of time from the Company's portfolio to qualifying third parties, via a lending agent. Borrowers of these securities provide collateral equal to, or in excess of, 102% of the market value of the loaned securities. Acceptable collateral may be in the form of cash or U.S. Government securities. The market value of the loaned securities is monitored and additional collateral is obtained if the market value of the collateral falls below 100% of the market value of the loaned securities. Under the terms of the securities lending program, the lending agent indemnifies the Company against borrower defaults. The loaned securities remain a recorded asset of the Company, however, the Company records a liability for the amount of collateral held, representing its obligation to return the collateral related to the loaned securities.

Goodwill and Intangible Assets

Goodwill represents the excess of amounts paid for acquiring businesses over the fair value of the net assets acquired. The Company adopted FAS 142 effective January 1, 2002 and reviews for impairment on an annual basis. The Company records exit activity costs of an acquired company in accordance with EITF Issue 95-3, *"Recognition of Liabilities in Connection with a Purchase Business Combination"* ("EITF 95-3"). EITF 95-3 allows costs associated with exit activities of the acquired company, involuntary employee terminations and relocation costs of the acquired company to be recognized as a liability assumed as of the consummation date of the acquisition and included in the allocation of the acquisition costs.

Deferred Policy Acquisition Costs

Costs that vary with and are primarily related to the acquisition of new and renewal insurance and investment contracts are deferred and amortized over the respective policy terms. Deferred policy acquisition costs are reviewed annually for recoverability. Investment income is considered in the recoverability assessment. For short-duration 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.

For short-duration contracts, acquisition costs are amortized in proportion to earned premiums. For traditional long duration contracts, acquisition costs are amortized over the premium paying period of the related policies using assumptions consistent with those used in computing

policy benefit reserves. For universal life insurance, annuity and investment products, acquisition costs are amortized in relation to expected gross profits.

For long duration contracts, to the extent unrealized gains or losses on fixed income securities carried at fair value would result in an adjustment of estimated gross profits had those gains or losses actually been realized, the related unamortized deferred policy acquisition costs are recorded net of tax as a reduction of the unrealized capital gains or losses and included in accumulated other comprehensive income.

Real Estate and Other Fixed Assets

The costs of buildings and furniture and equipment are depreciated, principally on a straight-line basis, over their estimated useful lives (a maximum of 40 years for buildings and 10 years for furniture and equipment). Expenditures for maintenance and repairs are charged to income as incurred while expenditures for betterments are capitalized and depreciated.

Separate Account Assets and Liabilities

Separate and variable accounts represent funds for which investment income and investment gains and losses accrue directly to the policyholders who predominantly bear the investment risk. Each account has specific investment objectives, and the assets are carried at fair value. The assets of each account are legally segregated and are not subject to claims that arise out of any other business of the Company. The assets of these accounts are equal to the account liabilities. Investment income, realized investment gains (losses), and policyholder account deposits and withdrawals related to separate accounts are excluded from the consolidated statements of income. The fees earned for administrative and contract holder maintenance services performed for these separate accounts are included in fee and other revenue.

Insurance Liabilities and Reserves

For short-duration contracts, the Company provides reserves for unpaid insurance claims and claim adjustment expenses covering events that occurred in 2003 and prior years. These reserves reflect estimates of the total cost of claims reported but not yet paid and the cost of claims not yet reported, as well as the estimated expenses necessary to settle the claims. Reserve estimates are based on past loss experience modified for current claim trends, as well as prevailing social, economic and legal conditions. Final claim payments, however, may ultimately differ from the established reserves, since these payments might not occur for several years. Reserve estimates are continually reviewed and updated, and any resulting adjustments are reflected in current operating results. The Company does not discount reserves other than tabular discounting on the long-term indemnity portion of workers compensation claims, the long-term disability portion of group accident and health claims as permitted by insurance regulations in certain states and specific asbestos settlements. Reserves are reduced for estimated amounts of salvage and subrogation and deductibles recoverable from policyholders.

For long-duration contracts, measurement of liabilities is based upon generally accepted actuarial techniques but requires assumptions about mortality, lapse rates and assumptions about future returns on related investments. Annuity and structured settlement contracts without significant mortality or morbidity risk are accounted for as investment contracts, whereby the premium received plus interest credited less policyholder withdrawals represents the investment contract liability. Credited interest rates for domestic structured settlement contracts in force were between 1.0% and 9.0% in 2003 and between 5.0% and 11.5% in 2002 and 2001. Credited interest rates for foreign structured settlement contracts in force were between 2.5% and 6.0% in 2003, 2002 and 2001. Credited rates for domestic universal life contracts in force were between 4.0% and 8.5% in 2003, 2002 and 2001. Credited rates for foreign universal life contracts in force were between 1.0% and 6.0% in 2003, 2002, and 2001. Liabilities for future policy benefits for traditional life policies have been computed using the net level premium method based upon estimated future investment yields (between 4.4% and 10.3% for all years of issue), mortality assumptions (based on the Company's experience relative to standard industry mortality tables) and withdrawal assumptions (based on the Company's experience).

Policyholder Dividends

Policyholder dividends are accrued using an estimate of the ultimate amount to be paid in relation to premiums earned based on the underlying contractual obligations.

For domestic property-casualty insurance, certain insurance contracts, primarily workers compensation policies, are issued with dividend plans, to be paid subject to approval by the insurer's board of directors. Such policies approximate 2% of domestic property-casualty insurance premiums written at December 31, 2003 and 2002 and 4% of domestic property-casualty insurance premiums written in 2001.

For life insurance, dividends to participating policyholders are calculated as the sum of the difference between the assumed mortality, interest and loading, and the actual experience of the Company relating to participating policyholders. As a result of statutory regulations, the major portion of earnings from participating policies inures to the benefit of the participating policyholders and is excluded from the consolidated net income and policyholders' equity. Participating policies approximate 17% and 19% of ordinary life insurance in force at December 31, 2003 and 2002, respectively, and 17% of premiums for the years ended December 31, 2003 and 2002.

Long-Term Incentive and Performance Based Incentive Plans

The Company maintains short and long-term incentive compensation plans. Long-term plans that vest over a service period and are based upon notional restricted and appreciated units are accounted for using guidance within Accounting Principles Board Opinion No. 25, *"Accounting for Stock Issued to Employees"* ("APB 25"), FASB Interpretation No. 28, *"Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans, an Interpretation of APB Opinions No. 15 and 25"* ("FIN 28"), and FASB Interpretation No. 44, *"Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB No. 25"* ("FIN 44"). Additionally, LMIC provides various performance based incentive compensation to the majority of employees meeting the participation requirements of the respective plans. Compensation cost related to these plans is determined in accordance with plan formulas and recorded ratably over the year as the employee service is provided.

Revenue Recognition

For short-duration insurance contracts, premiums are reported as earned income generally on a pro-rata basis over the terms of the related policies. For retrospectively rated policies and contracts, premium estimates are continually reviewed and updated and any resulting adjustments are reflected in current operating results. For traditional long-duration insurance contracts (including term and whole life contracts and annuities), premiums are earned when due. For annuities and structured settlements without significant mortality or morbidity risk (investment contracts) and universal life contracts (long-duration contracts with terms that are not fixed or guaranteed), revenues represent investment income earned on the related assets. Universal life and annuity contract revenues also include mortality, surrender and administrative fees charged to policyholders.

Reinsurance

All assets and liabilities related to reinsurance ceded contracts are reported on a gross basis in the consolidated balance sheets. The consolidated statements of income reflect premiums, benefits and settlement expenses net of reinsurance ceded.

Transactions that do not transfer risk are included in other assets or other liabilities. Transactions that transfer risk but are retroactive are included in reinsurance recoverables. The excess of estimated liabilities for claims and claim costs over the consideration received or paid with respect to retroactive property and casualty reinsurance contracts is established as a deferred charge or credit at inception. The deferred amounts are subsequently amortized using the interest method over the expected settlement periods of the claim liabilities assumed or ceded. The periodic amortization is reflected in the accompanying consolidated statements of income as benefits, claims and claim adjustment expenses.

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liabilities associated with the reinsured business. The Company evaluates reinsurance collectibility and a provision for uncollectible reinsurance is recorded.

Translation of Foreign Currencies

The Company translates the financial statements of its foreign operations into U.S. dollars from the functional currency designated for each foreign unit, generally the currency of the primary economic environment in which it operates. Assets and liabilities are translated into U.S. dollars at period-end exchange rates, while income and expenses are translated using average rates for the period. The resulting translation adjustments are recorded, net of tax, as a separate component of policyholders' equity.

For subsidiaries operating in highly inflationary economies, monetary assets and liabilities are translated at the rate of exchange as of the balance sheet date and non-monetary items are translated at historical rates. Gains and losses from balance sheet translation adjustments and foreign currency transactions are included in net income.

The aggregate exchange gains included in pre-tax income for the years ending December 31, 2003, 2002, and 2001 were $28, $79, and $31, respectively. These amounts have been included in insurance operating costs and expenses in the accompanying consolidated statements of income.

Income Taxes

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 reserves, unearned premiums, deferred policy acquisition costs, employee benefits and net operating losses.

Service Revenues and Expenses

Service revenues consist primarily of fees generated from processing business for involuntary assigned risk pools and are earned on a pro-rata basis over the term of the related policies and are included in fee and other revenues in the consolidated statements of income. Acquisition expenses are deferred and amortized over the period in which the related revenues are earned.

Accumulated Other Comprehensive Income

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

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

	2003	2002	2001
Unrealized gains on securities	$1,181	$1,279	$1,218
Foreign currency translation adjustments	31	(163)	(168)
Minimum pension liability	(25)	(12)	–
Accumulated other comprehensive income	$1,187	$1,104	$1,050

Catastrophe Exposure

The Company writes insurance policies that cover catastrophic events. The Company's policies cover unpredictable natural and other disasters, such as hurricanes, windstorms, earthquakes, floods, fires, terrorist attacks and explosions. Although the Company carries reinsurance to mitigate its exposure to certain catastrophic events, claims from catastrophic events could reduce the Company's earnings and cause substantial volatility in its financial results for any year and adversely affect its financial condition or results of operations. For example, the Company has material exposure to claims arising from the September 11, 2001 terrorist attack. The exposure arises primarily from property, workers compensation and reinsurance contracts.

The Terrorism Risk Insurance Act (the "Terrorism Act"), effective November 26, 2002, requires all commercial property and casualty insurers writing business in the U.S. to make terrorism coverage available to commercial policyholders and provides a Federal backstop for certain terrorist acts which result in losses above individual insurance company deductible amounts. The Terrorism Act directly applies to the Company's U.S. property and casualty insurance business. Participating insurers will receive reimbursement from the Federal government for 90% of paid losses in excess of the deductible. The Company estimates its deductible for commercial polices subject to the Terrorism Act (the amount the Company will have to pay before the Federal backstop becomes available) to be approximately $750 in 2004. This amounts to 10% of the

Company's direct earned premium from commercial lines of business subject to the Terrorism Act and approximately 10% of policyholders' equity of the Company as of December 31, 2003, prior to consideration of terrorism reinsurance that the company has purchased for 2004. Under the Terrorism Act, the Company's deductible level in 2005 will rise to 15% of its 2004 direct earned premium from applicable commercial lines. The Terrorism Act is in effect until December 31, 2005. The Terrorism Act does not protect the Company from losses insured by the Company which are not certified pursuant to the Terrorism Act, such as acts of domestic terrorism, like the Oklahoma City. Damage outside the U.S. is not covered except in limited circumstances, such as damage to a U.S. airplane. Therefore, future losses from terrorist attacks could prove to be material to the Company's business, financial condition and results of operations.

(2) DIVESTITURES AND DISCONTINUED OPERATIONS

Divestitures

Effective June 30, 2003, the Company sold its Liberty Health business in Canada, a business line of the International business unit, receiving proceeds approximating $98 and realized a gain of $82. This transaction did not meet the requirements for presentation as discontinued operations.

Discontinued Operations

Operating results of discontinued operations are composed primarily of the Canadian personal lines property and casualty operations and Liberty Financial Companies, Inc. ("LFC").

During 2003, the Company's Board of Directors approved a plan to dispose of the operations of a non-insurance subsidiary that had net losses of $(2), $0, and $(2) for the years ended December 31, 2003, 2002, and 2001, respectively.

In September 2003, the Company's Board of Directors approved a plan to dispose of the operations of its Canadian personal lines property and casualty operations (automobile and homeowners insurance). The transaction is subject to regulatory approvals and is expected to close during the second quarter of 2004.

Canadian Personal Lines Property and Casualty Operations

	2003	2002	2001
Revenues	$296	$244	$223
Loss before income taxes and minority interest	$ (1)	$ (18)	$ (36)
Federal and foreign income tax (benefit) expense	–	(3)	7
Net loss	$ (1)	$ (15)	$ (43)

Total assets and liabilities of discontinued operations included in the balance sheet, composed primarily of the Canadian personal lines property and casualty operations, at December 31, 2003 are as follows:

	2003
Assets:	
Investments, cash and cash equivalents	$399
Premium and other receivables	116
Reinsurance recoverables	21
Deferred policy acquisition costs	5
Deferred income taxes	9
Other assets	8
Total assets	$558
Liabilities:	
Unpaid claims and claim adjustment expense	$357
Unearned premiums	157
Other liabilities	4
Total liabilities	$518

Liberty Financial Companies, Inc.

On October 31, 2001, LFC, a 70% indirectly owned subsidiary of Liberty Mutual Insurance Company, sold its annuity and bank marketing business for $1,700 in cash and on November 1, 2001, LFC sold its asset management business for $900 in cash and the buyer assumed approximately $110 in revolving debt. The Company recorded an after-tax gain of approximately $100 on the transactions. Following the sales of LFC's operating subsidiaries, LFC completed a tender offer for approximately 96% of its $450 senior debt outstanding and the Company then acquired the outstanding minority shares. LFC's operating results and gain on sale of its operating subsidiaries qualified as discontinued operations, for the period ended November 1, 2001.

	2001
Revenues	$1,247
Income before income taxes and minority interest	$418
Federal and foreign income taxes	308
Income before minority interest	110
Cumulative effect of adoption of new accounting principles	(60)
Minority interest	(18)
Net income	$ 32

(3) ACQUISITIONS AND GOODWILL

Effective November 1, 2001, the Company acquired the renewal rights to the independent agency business of OneBeacon, excluding New York, New Jersey and New England. The business includes small commercial and personal lines and gross written premiums were $845, $1,021, and $283 for 2003, 2002, and 2001, respectively. Under the terms of the agreement, the Company retains one third of the underwriting results in the first year, two thirds in the second year and one hundred percent thereafter. The transaction excludes insurance liabilities for policies incepting

prior to the effective date. Under the terms of the transaction, the Company assumed the related infrastructure, employees and underwriting responsibility for the business.

Effective May 2003, the Company acquired 100% of the outstanding shares of Winterthur's Portuguese business units and branch offices, including its subsidiary companies Companhia Europeia de Segueros and Winterthur Pensoes. The transaction resulted in goodwill of $23. The results of operation for the acquired business are included subsequent to May 2003.

On October 31, 2003, LMGI acquired all the outstanding stock of Prudential Property and Casualty Insurance Company, Prudential General Insurance Company and Prudential Commercial Insurance Company (collectively referred to as "PruPac") from Prudential. The acquisition includes PruPac's U.S. personal lines property and casualty business and operations in 47 states, excluding the New Jersey business and also excluding the specialty automobile and affinity business. The cost of PruPac was $520 and consideration was a combination of cash and two series of promissory notes to Prudential. The Series A promissory note has an aggregate principal balance of $130, matures on October 31, 2008 and accrues interest annually at an interest rate of 7%. The Series B promissory note has an aggregate principal balance of $260, matures on October 31, 2013 and accrues interest annually at an interest rate of 8%.

The following is a condensed Balance Sheet of PruPac at November 1, 2003:

Assets:	
Investments, cash and cash equivalents	$1,736
Premium and other receivables	129
Reinsurance recoverables	345
Structured settlement assets	697
Other assets	127
Total assets	$3,034
Liabilities:	
Unpaid claims and claim adjustment expenses	$1,127
Unearned premiums	413
Structured settlement liabilities	697
Other liabilities	200
Total liabilities	$2,437

LMGI recorded the acquisition in accordance with Financial Accounting Standards No. 141, *Business Combinations* ("FAS 141") and assigned fair values to the identifiable assets and liabilities of PruPac on October 31, 2003. The excess of the assigned fair value of net assets over the purchase price, or negative goodwill, of $77 was recorded by LMGI as an extraordinary gain in the accompanying consolidated statements of income. Additionally, as part of the transaction and integration of PruPac's operations, $45 of restructuring charges were recorded relating to the acquisition costs of PruPac. The restructuring liability primarily includes severance and retention bonuses for employees that will be involuntarily terminated or relocated. Furthermore, Prudential guarantees 75% of the aggregate loss reserve development from continuing business, not to exceed $30. The operating results of PruPac included within the accompanying consolidated statements of income and cash flows are from November 1, 2003 through December 31, 2003. The Company is in the process of finalizing the evaluation of the fair value of the acquired business. Therefore, the allocation of the purchase price is subject to refinement.

In connection with the acquisition, the Company acquired the discontinued channels business of Prudential agency business. Prudential, through its wholly-owned subsidiary, Vantage Casualty Insurance Company ("Vantage"), reinsures and guarantees 100% of the first $50 and 75% of the next $60 of the net losses of the operation. To support the surplus of the Company in writing the discontinued channels business, Prudential provided the Company with a $30 cash payment against a note in the amount of $30 that matures on December 31, 2008 and accrues interest at a rate of 5% annually. The note is repaid annually in amounts corresponding to the reduction in the Company's gross written premium in the discontinued channels business. Vantage's obligations are guaranteed by Prudential Life Insurance of America. Additionally, the discontinued channel runoff business includes performance incentives for the Company.

In addition to the above-mentioned agreement, certain risks, including, without limitation, asbestos and other environmental risks; assumed reinsurance arrangements; unlimited medical benefits and certain mold claims, and various litigation arising out of or relating to conduct prior to closing have been ceded and transferred by virtue of reinsurance, indemnification and guaranty arrangements with Prudential and certain of its subsidiaries.

(4) INVESTMENTS

Components of Net Investment Income

	2003	2002	2001
Interest income	$1,759	$1,701	$1,712
Dividends	56	72	40
Limited partnerships	–	(155)	(123)
Other investment income (losses)	12	25	(21)
Gross investment income	1,827	1,643	1,608
Investment expenses	(65)	(53)	(51)
Net investment income	$1,762	$1,590	$1,557

Components of Net Realized Investment Gains

	2003	2002	2001
Fixed maturities			
Gross realized gains	$ 381	$ 403	$ 298
Gross realized losses	(180)	(233)	(198)
Equities			
Gross realized gains	119	447	260
Gross realized losses	(60)	(317)	(110)
Other			
Gross realized gains	126	10	28
Gross realized losses	(13)	(36)	(67)
Net realized investment gains	$ 373	$ 274	$ 211

During the years ended December 31, 2003, 2002, and 2001, other-than-temporary unrealized losses recognized through earnings and included in net realized investment gains were $74, $165, and $27, respectively.

During the years ended December 31, 2003, 2002, and 2001, proceeds from sales of fixed maturities available for sale were $8,930, $10,491, and $10,315, respectively. The gross realized gains and (losses) on such sales totaled $378 and $(87) in 2003, $385 and $(200) in 2002, and $287 and $(259) in 2001, respectively. Realized (losses) and gains on trading securities for the years ended December 31, 2003, 2002 and 2001 were $(7), $(95), and $2, respectively.

Components of Change in Net Unrealized Investment Gains

	2003	2002	2001
Fixed maturities	$(267)	$ 929	$ 260
Equities	213	(756)	(295)
Adjustments to deferred policy acquisition costs	(97)	(24)	(15)
Net change in unrealized investment (losses) gains	(151)	149	(50)
Deferred income taxes	53	(88)	18
Net change in unrealized investment (losses) gains, net of tax	$ (98)	$ 61	$ (32)

Available for Sale Investments

The gross unrealized gains and losses and fair values of available for sale investments at December 31, 2003 and 2002 are as follows:

December 31, 2003	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$ 2,639	$ 90	$ (12)	$ 2,717
Mortgage and asset-backed securities of government and corporate agencies	11,204	365	(70)	11,499
State and municipal	689	39	(10)	718
Corporate and other	16,341	1,085	(73)	17,353
Total fixed maturities	30,873	1,579	(165)	32,287
Total equity securities	813	571	(38)	1,346
Total securities available for sale	$31,686	$2,150	$(203)	$33,633

December 31, 2002	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$ 1,509	$ 200	$ (1)	$ 1,708
Mortgage and asset-backed securities of government and corporate agencies	9,525	628	(33)	10,120
State and municipal	688	72	(1)	759
Corporate and other	13,565	924	(108)	14,381
Total fixed maturities	25,287	1,824	(143)	26,968
Total equity securities	768	391	(71)	1,088
Total securities available for sale	$26,055	$2,215	$(214)	$28,056

At December 31, 2003 and 2002, fixed maturities carried at $4,772 and $4,692, respectively, were on deposit with regulatory authorities as required by law.

At December 31, 2003 and 2002, the fair values of fixed maturities loaned were approximately $462 and $485, respectively. Cash and short-term investments received as collateral in connection with the loaned securities were approximately $335 and $312 as of December 31, 2003 and 2002, respectively. Non-cash collateral received in connection with the loaned securities was approximately $135 and $184 as of December 31, 2003 and 2002, respectively.

The amortized cost and fair value of fixed maturities at December 31, 2003 by contractual maturity are set forth as follows:

	Amortized Cost	Fair Value
Due to mature:		
One year or less	$ 866	$ 877
Over one year through five years	4,752	4,985
Over five years through ten years	6,653	7,086
Over ten years	7,398	7,840
Mortgage and asset-backed securities	11,204	11,499
	$30,873	$32,287

Expected maturities may differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

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, 2003.

	Less Than 12 Months		Greater than 12 Months	
	Unrealized Losses	Fair Value of Investments with Unrealized Losses	Unrealized Losses	Fair Value of Investments with Unrealized Losses
U.S. Treasury securities	$ (12)	$ 544	$ –	$ –
Mortgage and asset-backed securities of government and corporate agencies	(65)	3,206	(5)	86
State and municipal	(10)	351	–	3
Corporate and other	(72)	2,315	(1)	31
Equities	(20)	101	(18)	63
Total	$(179)	$6,517	$(24)	$183

The majority of unrealized losses reported in the corporate and other category involve holdings where the market value is less than 10% below book value. Also included in these unrealized losses are amounts relating to securities issued and guaranteed by Agencies of the U.S. Government.

The equity holdings reflecting unrealized losses were not deemed to be impaired on an other-than-temporary basis under the Company's impairment policy.

The unrealized losses on the securities above are subject to review during each quarterly impairment analysis cycle.

Derivatives

As of December 31, 2003 and 2002, the Company's indirectly owned foreign subsidiaries held $54 and $52, respectively, of derivative instruments (all classified as fair value hedges) and are included as fixed maturities or other assets in the consolidated balance sheets.

As of December 31, 2001, equity swaps had notional amounts of $362 and fair value of $14. This program was terminated during 2002.

(5) DEFERRED POLICY ACQUISITION COSTS

The following reflects the policy acquisition costs deferred for amortization against future income and related amortization charged to income:

Years Ended December 31,	2003	2002	2001
Balance at beginning of year	$ 913	$ 819	$ 1,249
Acquisition costs deferred	2,070	1,762	1,690
Amortization charged to continuing income	(1,872)	(1,661)	(1,572)
Amortization included in discontinued operations	(7)	(7)	(548)
Balance at end of year	$1,104	$ 913	$ 819

(6) UNPAID CLAIMS AND CLAIM ADJUSTMENT EXPENSES

The Company establishes reserves for payment of claims and claims adjustment expenses that arise from the policies issued. As required by applicable accounting rules, no reserves are established until a loss, including a loss from a catastrophe, occurs. The Company's reserves are segmented into three major categories: reserves for reported claims (estimates made by claims adjusters); incurred but not reported claims reserves ("IBNR") representing reserves for unreported claims and supplemental reserves for reported claims; and reserves for the costs to settle claims. The Company establishes its reserves net of salvage and subrogation by line of business or coverage and year in which losses occur.

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 litigation, medical costs, the costs of repair materials and labor rates can all affect ultimate claim costs. In addition, time can be a critical part of reserving determinations since the longer the span between the incidence of a loss and the payment or settlement of the claim, the more variable the ultimate settlement can be. 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.

Catastrophes are an inherent risk of the property-casualty insurance business and have contributed to material period-to-period fluctuations in the Company's results of operations and financial position. The level of catastrophe losses experienced in any period cannot be predicted and can be material to the results of operations and financial position of the Company. Catastrophe losses incurred during the years ended December 31, 2003, 2002 and 2001 were $180, $209, and $775, respectively, and related to natural disasters, weather related events, California wildfires and claims arising from the terrorist attack of September 11, 2001. The September 11, 2001 exposure arises primarily from property, workers compensation and reinsurance contracts. Although uncertainty about the final loss amount still exists, the claims are reasonably estimable and such estimate has been recorded. The cumulative pre-tax impact, net of reinsurance, was approximately $571.

Activity in property and casualty unpaid claims and claim adjustment expenses of the Company is summarized as follows:

	2003	2002	2001
Balance as of January 1	$27,475	$26,385	$23,876
Less: unpaid reinsurance recoverables (1)	8,748	7,514	5,771
Net balance as of January 1	18,727	18,871	18,105
Balance attributable to dispositions, acquisitions, and affiliations	983	23	286
Incurred attributable to:			
Current year	9,929	8,599	8,687
Prior years:			
Discount accretion	95	74	68
All other	619	685	1,517
Total incurred	10,643	9,358	10,272
Paid attributable to:			
Current year	4,832	3,917	4,110
Prior years	4,807	5,594	5,674
Total paid	9,639	9,511	9,784
Net adjustment due to foreign exchange and amortization of deferred gain	184	(14)	(8)
Add: unpaid reinsurance recoverables (1)	9,699	8,748	7,514
Balance as of December 31	$30,597	$27,475	$26,385

(1) In addition to the unpaid reinsurance recoverable balances noted above, and as a result of retroactive reinsurance agreements discussed in Note 8, the Company has recorded retroactive reinsurance recoverable balances of $2,157, $2,187 and $2,063 at December 31, 2003, 2002 and 2001, respectively. Additionally, included within the prior year incurred balances is amortization on the retroactive reinsurance deferred gain of $48, $50, and $21 for the years ended December 31, 2003, 2002, and 2001, respectively.

In 2003 the Company completed a ground-up study of asbestos reserves, focusing on the implications of claim and litigation trends and other significant developments, with special attention to major asbestos defendants and non-products claims alleging that the Company's coverage obligations are not subject to aggregate limits. This included further categorization of policyholders, conducting an examination of recent claim activity from policyholders reporting claims for the first time, and a review of past settlements. As a result of the ground-up study, the Company reflected a charge in 2003 relating to increased asbestos net loss reserves of $173 and increased its asbestos liability reinsurance recoverable allowance by $158 for a total expense of $331. In addition, incurred attributable to prior years in 2003 was due primarily to workers compensation losses due to medical severity. In 2002 and 2001, incurred claims and claim adjustment expenses attributable to prior years was primarily due to rising loss trends in commercial lines including workers compensation and asbestos.

The Company has not discounted unpaid property and casualty insurance claims and claim adjustment expenses other than tabular discounting on the long-term indemnity portion of workers compensation claims, the Company's disability claims as permitted by insurance regulations in certain states and specific asbestos settlements.

The tabular discounting on these workers compensation claims is based upon Unit Statistical Plan tables as approved by the respective states and ranges from 3.50% to 4.00% for the years ended December 31, 2003 and 2002. Unpaid claims and claim adjustment expenses at December 31, 2003 and 2002 include liabilities of $3,765 and $3,587 at discounted values of $2,438 and $2,299, respectively. The discounting of the disability claims is based on the 1987 Commissioners Group Disability Table (CGDT) at annual discount rates varying from 5.00% to 6.00% in 2003 (5.00% to 7.00% in 2002). Unpaid claims and claim adjustment expenses at December 31, 2003 and 2002 include liabilities of $803 and $735 carried at discounted values of $576 and $511, respectively.

For certain commercial lines of insurance, the Company offers experience-rated insurance contracts whereby the ultimate premium is dependent upon the claims incurred. At December 31, 2003 and 2002, the Company held $3,738 and $3,576, respectively, of unpaid claims and claim adjustment expenses related to experience-rated contracts. Premiums receivable included accrued retrospective and unbilled audit premiums of $902 and $718 at December 31, 2003 and 2002, respectively. For the years ended December 31, 2003, 2002, and 2001, the Company recognized additional premium income of $173, $(7), and $60, respectively, relating to prior years exposure.

Unpaid claims and claim adjustment expenses are recorded net of anticipated salvage and subrogation of $532 and $431 as of December 31, 2003 and 2002, respectively.

At December 31, 2003 and 2002, the reserve for unpaid claim reserves was reduced by $2,077 and $1,844, respectively, for large dollar deductibles. Large dollar deductibles billed and recoverable were $238 and $216 at December 31, 2003 and 2002, respectively.

(7) ASBESTOS AND ENVIRONMENTAL RESERVES

The Company has exposure to asbestos and environmental claims that emanate principally from general liability policies written prior to the mid-1980's. In establishing the Company's asbestos and environmental reserves, the Company estimates case basis reserves for anticipated losses and bulk reserves for loss adjustment expenses and IBNR losses. The Company maintained casualty excess of loss reinsurance during the relevant periods. The reserves are reported net of cessions to reinsurers and include any reserves reported by ceding reinsurers on assumed reinsurance contracts.

Upon their de-affiliation from the Nationwide Group and affiliation with the Company, EICOW, Wausau Business Insurance Company ("WBIC"), Wausau General Insurance Company ("WGIC"), and Wausau Underwriters Insurance Company ("WUIC") entered into ceded reinsurance contracts whereby Nationwide Indemnity Company assumed full responsibility for obligations on certain policies with effective dates prior to January 1, 1986, including all asbestos and environmental exposures.

The process of establishing reserves for asbestos and environmental claims is subject to greater uncertainty than the establishment of reserves for liabilities relating to other types of insurance claims. A number of factors contribute to this greater uncertainty surrounding the establishment of asbestos and environmental reserves, including, without limitation: (i) the lack of available and reliable historical claims data as an indicator of future loss development, (ii) the long waiting periods between exposure and manifestation of any bodily injury or property damage,

(iii) the difficulty in identifying the source of asbestos or environmental contamination, (iv) the difficulty in properly allocating liability for asbestos or environmental damage, (v) the uncertainty as to the number and identity of insureds with potential exposure, (vi) the cost to resolve claims, and (vii) the collectibility of reinsurance.

The uncertainties associated with establishing reserves for asbestos and environmental losses and loss adjustment expenses are compounded by the differing, and at times inconsistent, court rulings on environmental and asbestos coverage issues involving: (i) the differing interpretations of various insurance policy provisions and whether asbestos and environmental losses are or were ever intended to be covered, (ii) when the loss occurred and what policies provide coverage, (iii) whether there is an insured obligation to defend, (iv) whether a compensable loss or injury has occurred, (v) how policy limits are determined, (vi) how policy exclusions are applied and interpreted, (vii) the impact of entities seeking bankruptcy protection as a result of asbestos-related liabilities, (viii) whether clean-up costs are covered as insured property damage, and (ix) applicable coverage defenses or determinations, if any, including the determination as to whether or not an asbestos claim is a products/completed operation claim subject to an aggregate limit and the available coverage, if any, for that claim. The uncertainties cannot be reasonably estimated, but could have a material impact on the Company's future operating results and financial condition.

In recent years, the Company, as well as the industry generally, has witnessed a significant increase in the number of asbestos claims being filed, due to a number of variables, including more intensive advertising by lawyers seeking asbestos claimants, and the increasing focus by plaintiffs on new and previously peripheral defendants, attempts to broaden the interpretation of compensable loss, and courts expanding the scope of the coverage.

As a result of the significant uncertainty inherent in determining a company's asbestos and environmental liabilities and establishing related reserves, the amount of reserves required to adequately fund the Company's asbestos and environmental claims cannot be accurately estimated using conventional reserving methodologies based upon historical data and trends. As a result, the use of conventional reserving methodologies frequently has to be supplemented by subjective considerations including managerial judgment.

As a result of the ground-up study discussed in Note 6, the Company increased net loss reserves $173 and increased its asbestos liability reinsurance recoverable allowance by $158 for a total expense of $331.

Unpaid claims and claim adjustment expenses for asbestos and environmental related claims net of reinsurance and allowance for reinsurance on unpaid losses were $1,441 and $1,291 at December 31, 2003 and 2002, respectively.

The following tables summarize the activity for the Company's asbestos and environmental claims and claim adjustment expenses, a component of the Company's unpaid claims and claim adjustment expenses, for the years ended December 31, 2003, 2002 and 2001:

	2003	2002	2001
Gross Asbestos:			
January 1 reserves	$1,686	$1,482	$1,411
Acquisitions	15	–	–
Incurred activity	548	501	293
Paid activity	370	297	222
Ending reserves	$1,879	$1,686	$1,482
Net Asbestos:			
January 1 reserves	$ 974	$ 854	$ 790
Acquisitions	12	–	–
Incurred activity	178	295	179
Paid activity	150	175	115
Ending reserves	$1,014	$ 974	$ 854
Allowance for reinsurance on unpaid losses	140	–	–
Total unpaid losses including allowance for unpaid reinsurance	$1,154	$ 974	$ 854

	2003	2002	2001
Gross Environmental:			
January 1 reserves	$ 577	$ 702	$ 859
Acquisitions	15	–	–
Incurred activity	(106)	53	(4)
Paid activity	76	178	153
Ending reserves	$ 410	$ 577	$ 702
Net Environmental:			
January 1 reserves	$ 317	$ 444	$ 468
Acquisitions	12	–	–
Incurred activity	–	(11)	92
Paid activity	42	116	116
Ending reserves	$ 287	$ 317	$ 444

(8) REINSURANCE

In the ordinary course of business, the Company assumes reinsurance and also cedes reinsurance to other insurers to reduce overall risk, including exposure to large losses and catastrophic events. The Company is also a member of various involuntary pools and associations and serves as a servicing carrier for residual market organizations.

A summary of reinsurance financial data reflected within the consolidated statements of income is presented below:

	2003		2002		2001	
	Written	Earned	Written	Earned	Written	Earned
Direct	$16,949	$16,187	$14,874	$13,918	$12,525	$12,033
Assumed	1,370	1,539	1,637	1,482	787	625
Ceded	3,837	3,770	3,940	3,498	2,465	2,121
Net premiums	$14,482	$13,956	$12,571	$11,902	$10,847	$10,537

The following table summarizes the Company's ceded reserves by reinsurers' Standard & Poor's ("S&P") rating as of December 31, 2003.

S&P Rating	Reinsurance Recoverables
AAA	$ 1,300
AA+, AA, AA-	3,395
A+, A, A-	2,785
BBB+, BBB, BBB-	95
BB+ or below	20
Involuntary Pools	2,546
Voluntary Pools	396
Other	1,690
	$12,227

The Company remains contingently liable in the event reinsurers are unable to meet their obligations for paid and unpaid reinsurance recoverables and unearned premiums ceded under reinsurance agreements.

The Company has an aggregate reinsurance recoverable from Nationwide Indemnity Company in the amount of $1,034 and $1,302 as of December 31, 2003 and 2002, respectively. The reinsurance recoverable is guaranteed by Nationwide Mutual Insurance Company. Additionally, the Company has significant reinsurance recoverable concentrations with Berkshire Hathaway, Inc., Swiss Reinsurance Group, and Chubb totaling $670, $1,229, and $322, respectively, as of December 31, 2003, net of offsetting collateral under the contracts.

Recoverables from state mandated involuntary market pools and associations represent servicing carrier business. As a servicing carrier, the Company retains no direct underwriting risk but instead cedes 100 percent of the involuntary premium and losses back to the pool. Payment of losses is shared among the pool participants in proportion to their pool participation. Credit risk with respect to any given pool or association is a composite of the cumulative credit of all participants.

In 2002 and 2001, the Company entered into retroactive reinsurance treaties with unaffiliated entities. The Company transferred unpaid claims and claim adjustment expenses of $124 and $1,603 and recorded deferred gains of $0 and $800 in 2002 and 2001, respectively. At December 31, 2003 and 2002, the deferred gain on retroactive reinsurance was $995 and $1,091, respectively, and is included in other liabilities. The Company accrued contingent profit sharing commissions of $195 as of December 31, 2003 and 2002.

(9) DEBT OUTSTANDING

Debt outstanding at December 31, 2003 and 2002 includes the following:

Short-term debt:

	2003	2002
Commercial paper	$ 84	$ 50
Revolving credit facilities	22	18
Receivables financing	–	40
Current maturities of long-term debt	–	35
Total short-term debt	$ 106	$ 143

Long-term debt:

	2003	2002
8.20%, Surplus Notes, due 2007	$ 250	$ 250
6.75%, Notes, due 2008	15	18
5.00% Notes, due 2008	30	–
7.00% Notes, due 2008	130	–
8.00% Notes, due 2013	260	–
8.50%, Surplus Notes, due 2025	150	150
7.87%, Surplus Notes, due 2026	250	250
7.63%, Notes, due 2028	3	3
7.70%, Surplus Notes, due 2097	500	500
6.76% - 8.10%, Medium Term Notes, with various maturities	88	88
	1,676	1,259
Unamortized discount	(8)	(9)
Total long-term debt excluding current maturities	$1,668	$1,250

Short-term Debt

The Company issues commercial paper to meet short-term operating needs. The total facility was $600 at December 31, 2003 and 2002 and is backed up by a $450 line of credit facility. Commercial paper issued and outstanding at December 31, 2003 and 2002 was $84 and $50, respectively. Interest rates ranged from 1.03% to 1.55% in 2003 and 1.40% to 3.10% in 2002.

In 2002 and 2001, the Company entered into a one-year financing transaction, whereby LMGI sold $142 and $85 of premiums receivable, with recourse, for $121 and $72, respectively. This transaction was not renewed in 2003.

Long-term Debt

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

At December 31, 2003, the principal maturity schedule of long-term borrowings is as follows:

2005	$ 61
2006	–
2007	250
2008	177
Thereafter	1,180
	$ 1,668

As discussed in Note 3, the Company entered into two promissory note agreements with Prudential in conjunction with the acquisition of all the outstanding stock of PruPac.

In 2003 and 2002, the Company entered into an arrangement to sell and leaseback certain furniture and equipment. The initial lease term is 13 months with the Company having the option to renew the lease monthly for up to five years at which time the Company has a purchase option. The weighted average interest rate on the lease is LIBOR plus 145 basis points. The transactions are accounted for as capital leases. The capital lease obligations as of December 31, 2003 and 2002 were $101 and $114, respectively, and are included in other liabilities.

As of December 31, 2003, the Company's future minimum lease payments under the sale-leaseback agreement through maturity are approximately $38 for 2004, $26 for 2005, $25 for 2006, $7 for 2007, and $4 for 2008.

Interest

The Company paid $106, $113, and $121 of interest in 2003, 2002, and 2001, respectively, and incurred $111, $116, and $124 of interest expense in 2003, 2002, and 2001, respectively, for all indebtedness.

(10) FEDERAL AND FOREIGN INCOME TAXES

LMHC, Montgomery, and M&B each file separate Federal income tax returns. Each company files a consolidated Federal income tax return with their respective eligible subsidiaries. Pursuant to intercompany Federal income tax allocation agreements among each of these companies and their respective subsidiaries, the consolidated tax liabilities are allocated to each company based on its separate return tax liability. Tax benefits are allocated to each company for its portion of net operating losses and tax credit carry forwards in the year they are used by the consolidated group. Intercompany tax balances are settled quarterly. A provision is made, where applicable, for taxes on foreign operations.

The components of Federal and foreign income tax expense (benefit) related to continuing operations are:

Years ended December 31,	2003	2002	2001
Current tax expense (benefit):			
United States Federal	$ 198	$ 241	$(129)
United States Federal benefit of net operating losses	(118)	(195)	–
Foreign	47	39	25
Total current tax expense (benefit)	127	85	(104)
Deferred tax expense (benefit):			
United States Federal	(137)	(27)	486
Foreign	10	23	(104)
Total deferred tax (benefit) expense	(127)	(4)	382
Total Federal and foreign income tax expense	$ –	$ 81	$ 278

A reconciliation of the income tax expense (benefit) attributable to continuing operations computed at U.S. Federal statutory tax rates to the income tax expense (benefit) as included in the consolidated statements of income follows:

Years ended December 31,	2003	2002	2001
Expected Federal income tax expense (benefit)	$ 272	$ 213	$(579)
Tax effect of:			
Nontaxable investment income	(23)	(29)	(54)
Change in valuation allowance	(226)	(35)	975
Foreign investments / exchange	(28)	(27)	(5)
Goodwill	(10)	(14)	(14)
Revisions to estimates	12	(64)	(80)
Other	3	37	35
Actual Federal and foreign income tax expense	$ –	$ 81	$ 278

The significant components of the deferred income tax assets and liabilities at December 31, are summarized as follows:

	2003	2002
Deferred tax assets:		
Unpaid claims discount	$ 663	$ 769
Unearned premium reserves	358	310
Net operating losses	382	377
Employee benefits	308	204
Retroactive reinsurance deferred gain	349	379
Credits	212	168
Other	530	316
	2,802	2,523
Less: valuation allowance	(800)	(1,016)
Total deferred tax assets	2,002	1,507
Deferred tax liabilities:		
Deferred acquisition costs	309	260
Net unrealized gains and other-than-temporary declines in investments	507	585
Other	326	48
Total deferred tax liabilities	1,142	893
Net deferred tax assets	$ 860	$ 614

Based primarily on the assumption that future levels of income will be achieved, management believes it is more likely than not that the deferred tax assets will be realized net of valuation allowances which were reduced during 2003.

The Company's subsidiaries had net operating loss carry forwards of $1,271, alternative minimum tax credit carry forwards of $144, and foreign tax credit carry forwards of $65 as of December 31, 2003. The net operating losses available in the U.S. and various non-U.S. tax jurisdictions will begin to expire, if not utilized, as follows:

2004	$ 33
2005	1
2006	62
2007	36
2008	35
Thereafter	1,104
Total	$1,271

The foreign tax credits will begin to expire, if not utilized, in 2004 and the alternative minimum tax credits do not expire.

The Company has not provided for deferred taxes on unremitted earnings of subsidiaries outside the United States where such earnings are permanently reinvested. At December 31, 2003, unremitted earnings of foreign subsidiaries were $301. If these earnings were distributed in the form of dividends or otherwise, the Company would be subject to U.S. income taxes less an adjustment for applicable foreign tax credits.

The Internal Revenue Service ("IRS") has completed its review of the Company's Federal income tax returns through the 1998 tax years and is currently reviewing income tax returns for the 1999 through 2001 tax years. Any adjustments that may result from the IRS examinations of these income tax returns are not expected to have a material impact on the financial position, liquidity or results of operations of the Company.

During 2003, the Company decreased the valuation allowance on deferred tax assets principally due to positive expectations of future operations concerning the realization of deferred tax assets.

In conjunction with the Portugal acquisition, the Company acquired a $10 deferred tax asset relating to a net operating loss that the Company established a valuation allowance against.

(11) BENEFIT PLANS

The Company sponsors noncontributory defined benefit pension plans ("the Plans") covering substantially all U.S. and Canadian employees. The benefits and eligibility are based on age, years of service and the employee's compensation, as more fully described in the Plans.

Assets of the Plans consist primarily of investments in life insurance company separate accounts that invest primarily in fixed income and Standard & Poor's 500 Index of equity securities. At December 31, 2003 and 2002, assets of the Plans totaling $1,930 and $1,720, respectively, were held in separate accounts of the Company.

The Company sponsors a supplemental retirement plan ("SIRP") for certain executives 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 also provides certain healthcare and life insurance benefits ("Postretirement") covering substantially all U.S. and Canadian employees. Life insurance benefits are based upon a participant's final compensation subject to the plan maximum.

The following table sets forth the assets, obligations and assumptions associated with the various U.S. and Canadian pension and post-retirement benefits. The amounts are recognized

in the accompanying consolidated balance sheet

	ts		SIRP Benefits		Postretirement Benefits	
	2003	2002	2003	2002	2003	2002
Change in benefit obligations:						
Benefit obligation at beginning of year	$2,036	$1,966	$ 160	$ 112	$ 439	$ 426
Service costs	97	88	5	4	15	13
Interest cost	143	131	11	10	30	29
Amendments	–	–	–	–	–	(38)
Actuarial loss (gain)	337	(49)	44	27	45	34
Divestitures	(17)	–	–	–	(4)	–
Benefits paid	(95)	(97)	(13)	(6)	(29)	(24)
Other	7	(3)	–	13	2	(1)
Benefit obligations at end of year	$2,508	$2,036	$ 207	$ 160	$ 498	$ 439
Accumulated benefit obligations	$2,065	$1,760	$ 158	$ 132	$ 498	$ 439
Change in plan assets:						
Fair value of plan assets at beginning of year	$1,831	$2,174	$ –	$ –	$ 20	$ 22
Actual return on plan assets	364	(234)	–	–	2	–
Divestitures	(25)	–	–	–	–	–
Employer contribution	–	–	–	–	27	22
Benefits paid	(95)	(97)	–	–	(29)	(24)
Other	1	(12)	–	–	–	–
Fair value of plan assets at end of year	$2,076	$1,831	$ –	$ –	$ 20	$ 20
Reconciliation of funded status:						
Funded status of the plan	$ (432)	$ (205)	$(207)	$(160)	$(478)	$(419)
Unrecognized net loss/(gain)	523	336	87	46	11	(32)
Unrecognized prior service cost	49	53	16	18	(44)	(47)
Unrecognized net transition (asset)/obligation	(50)	(57)	2	2	127	135
Net amount recognized	$ 90	$ 127	$(102)	$ (94)	$(384)	$(363)
Amounts recognized in the consolidated balance sheets consist of:						
Prepaid benefit cost	$ 90	$ 127	$ –	$ –	$ –	$ –
Accrued benefit liability	–	–	(158)	(132)	(384)	(363)
Intangible asset	–	–	18	19	–	–
Accumulated other comprehensive income	–	–	38	19	–	–
Net amounts recognized at year end	$ 90	$ 127	$(102)	$ (94)	$(384)	$(363)
Additional Information:						
Increase in minimum liability included in other comprehensive income	$ –	$ –	$ 19	$ 19	$ –	$ –

The expected long-term rate of return assumption is primarily driven by two factors: (1) the asset allocation targets and (2) the expected long-term returns associated with each asset class. The starting point for generating long-term expected asset class returns for large-cap equities, small-cap equities, private equities and high yield bonds is an analysis of historic asset class returns and risk premium relative to the 5-year U.S. Treasury. Investment grade bonds and cash are expected to earn returns that are generally consistent with the prevailing market yields.

This approach is not entirely formulaic as professional judgment is used to make modest adjustments to these numbers in cases where the Company believes that certain data are at abnormal levels relative to long-term averages. For example, both inflation and Treasury yields currently appear low relative to long-run averages. The 5-year U.S. Treasury bond currently yields approximately 3.25% and the inflation (as measured by the CPI-U) is currently at 1.9%. Over the past ten and twenty years, the 5-year Treasury yield has averaged approximately 5.3% and 6.7%, respectively, which suggests the current Treasury yield is approximately 2.5% below its long-term average. Over the past ten and twenty years, inflation has averaged approximately 2.4% and 3.1%, respectively, which suggests that inflation is approximately 1% below its long-term average. Based on this information, the Company assumed a modest increase in future 5-year Treasury yields in generating its expected long-term return estimates.

The net benefit cost for the years ended December 31, 2003, 2002, and 2001 included the following components:

December 31, 2003	Pension Benefits	SIRP Benefits	Post-retirement Benefits
Components of net periodic benefit costs			
Service costs	$ 97	$ 5	$15
Interest cost	143	11	30
Expected return on plan assets	(200)	–	(1)
Amortization of unrecognized:			
Net loss	–	3	–
Prior service cost	4	2	(3)
Net transition (assets)/obligations	(7)	–	9
Net periodic benefit costs	$ 37	$21	$50

December 31, 2002	Pension Benefits	SIRP Benefits	Post-retirement Benefits
Components of net periodic benefit costs			
Service costs	$ 88	$ 4	$13
Interest cost	131	10	29
Expected return on plan assets	(215)	2	(2)
Amortization of unrecognized:			
Net (gain)/loss	(14)	1	(2)
Prior service cost	5	1	(1)
Net transition (assets)/obligations	(7)	1	10
Net periodic benefit costs	$ (12)	$19	$47

December 31, 2001	Pension Benefits	SIRP Benefits	Post-retirement Benefits
Components of net periodic benefit costs			
Service costs	$ 70	$ 3	$11
Interest cost	121	7	27
Expected return on plan assets	(212)	–	(2)
Amortization of unrecognized:			
Net (gain)/loss	(27)	1	(3)
Prior service cost	–	2	(1)
Net transition (assets)/obligations	(6)	–	10
Net periodic benefit costs	$ (54)	$13	$42

Weighted-average actuarial assumptions for benefit obligations are set forth in the following table.

December 31,	2003	2002
Pension Benefits		
Discount rate	6.50%	7.00%
Rate of compensation increase	5.20%	5.20%
SIRP Benefits		
Discount rate	6.50%	7.00%
Rate of compensation increase	4.90%	4.90%
Postretirement Benefits		
Discount rate	6.50%	7.00%

Weighted-average actuarial assumptions for net periodic benefit costs are set forth in the following table.

December 31,	2003	2002	2001
Pension Benefits			
Discount rate	7.00%	7.00%	7.25%
Expected return on plan assets	8.50%	9.00%	9.00%
SIRP Benefits			
Discount rate	7.00%	7.00%	7.25%
Postretirement Benefits			
Discount rate	7.00%	7.00%	7.25%
Expected return on plan assets	7.15%	7.15%	7.15%

The average healthcare cost trend rates are expected to be 9.00% for 2004 and in 2002 were expected to be 10.00% for 2003. The 2003 and 2002 rates are graded to 5%. The rates will reach the ultimate trend rate in 2008.

Healthcare cost trend rate assumptions can have an impact on the postretirement benefit obligation. A one-percentage point change in assumed healthcare cost trend rates would have the following effects:

	1% point increase	1% point decrease
Effect on total service and interest costs	$ 6	$ (5)
Effect on accumulated benefit obligation	$49	$(45)

Plan Assets

The U.S. pension plan weighted-average asset allocation by asset category is as follows:

Asset Category	2003	2002
Equity investments	58%	55%
Debt investments	37%	40%
Other	5%	5%
Total	100%	100%

The fundamental investment policies of the Plans have been formulated so they balance the primary objectives of (1) achieving long-term growth sufficient to fund, as fully practicable, future obligations and (2) supporting the short-term requirement of meeting current benefit payments, all after giving due consideration to the underlying characteristics of the Company's employment base. Overall, the Plan's policies have traditionally emphasized the maximization of long-term returns in a manner that is consistent with an asset base that: consists of high quality investments as a means of enhancing capital preservation; is broadly diversified; generates a relatively high level of investment income in accordance with the level of risk incurred; and is generally, highly marketable.

Asset allocation and selection guidelines for the Plans have been developed around the aforementioned fundamental policies. Equities have been considered the most appropriate asset class for the Plans given their record of superior, long-term, real rates of return and the Plans' ability to accommodate the shorter-term volatility typically associated with equity investments. The guidelines for equity investing have historically focused on high quality stocks and the diversification of risk. The Plans' target allocation for equity investments is 65%, with a range of 45% to 95%.

The other major component of the Plans' assets consists of fixed income securities. The primary investment objective for this class of assets is to balance the pursuit of total return and the generation of a relatively high level of investment income. Once again, from a policy perspective, emphasis is placed on high quality investments and the diversification of risk. The Plans' target allocation for debt investments is 29%, with a range of 17% to 42%.

The remaining assets of the Plan are maintained in cash or invested in limited partnerships, which are principally engaged in venture capital investing and other so-called "non-traditional" forms of investment. The Plans' target allocation for other Investments is 6%, with a range of 3% to 12%.

The Postretirement Plan weighted-average asset allocations by asset category are as follows:

Asset Category	2003	2002
Equity investments	23%	18%
Debt investments	14%	13%
Other	63%	69%
Total	100%	100%

The Postretirement Plan maintains assets in an insurance contract used to pay current life insurance premiums for certain retirees. These amounts are classified as other assets. The investment strategy for this portion of the assets places a greater emphasis on funding current benefits and a lesser emphasis on long-term growth.

Cash Flows

Contributions

The Company expects to contribute $100 to the qualified plan, and directly fund $40 to retirees of the SIRP in 2004. In addition, the Company expects to directly fund $30 to the retirees of the postretirement benefit plan in 2004.

Expected Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate are expected to be paid:

	Pension and SIRP	Postretirement
2004	$131	$30
2005	109	33
2006	114	34
2007	116	36
2008	121	37
2009–2013	708	202

The Company sponsors defined contribution savings plans (401(k) plans) for substantially all U.S. and Canadian employees who meet certain eligibility requirements. During 2003, 2002 and 2001, employees could contribute a percentage of their annual compensation on a before and after-tax basis, subject to Federal limitations. In 2003, 2002 and 2001, the Company made matching contributions of $60, $61, and $57, respectively.

Some foreign subsidiaries sponsor non-contributory pension plans to employees that provide benefits based on final pay. The assets of the plans are held separately from the assets of the foreign subsidiaries. Pension costs charged to the foreign subsidiaries operations during 2003, 2002 and 2001 were $2, $5, and $2, respectively. The market value of the plan assets as of December 31, 2003 and 2002 was $17 and $16, respectively. The accumulated benefit obligation under the plans as of December 31, 2003 and 2002 was $16 and $15, respectively.

Compensation expense related to the Company's incentive compensation plans was $388, $135, and $94 for the years ended December 31, 2003, 2002 and 2001, respectively.

(12) FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, *"Disclosures about Fair Value of Financial Instruments"* ("FAS 107") requires disclosure of fair value information about financial instruments, as defined therein, for which it is practicable to estimate such fair value. FAS 107 excludes certain financial instruments, including those related to certain insurance contracts. In the measurement of the fair value of certain financial instruments, quoted market prices were not available and other valuation techniques were utilized. These derived fair value estimates are significantly affected by the assumptions used. The following methods and assumptions were used to estimate the fair value of the financial instruments presented:

Cash and cash equivalents and short-term investments: The carrying amounts reported in the consolidated balance sheets for these instruments approximate fair values.

Fixed maturities: Fair values for fixed maturities were generally based upon quoted market prices. For certain fixed maturities securities for which quoted market prices were not available, fair values were estimated using values obtained from independent pricing services, or in the case of private placements, were determined by discounting expected future cash flows using a current market rate applicable to the yield, credit quality, and maturity of the securities.

Equity and trading securities: Fair values for equity and trading securities were based upon quoted market prices.

Other investments: Fair values represent the Company's equity in the partnerships' net assets as determined by the respective general partners.

Individual and group annuities: Fair values for deferred annuity contracts are equal to current net surrender value. Fair values of liabilities under investment-type insurance contracts, including individual and group annuities, are estimated using discounted cash flow calculations at current pricing rates.

Debt outstanding: Fair values of commercial paper and short-term borrowings approximate carrying value. Fair values of long-term debt were based upon either quoted market prices or estimated using discounted cash flow analyses based on the Company's incremental borrowing rate.

The fair values and carrying values of the Company's financial instruments at December 31, 2003 and 2002 are as follows:

	2003		2002	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Fixed maturity securities	$32,287	$32,287	$26,968	$26,968
Equity securities	1,346	1,346	1,088	1,088
Trading securities	208	208	227	227
Other investments	768	768	675	675
Short-term investments	940	940	779	779
Cash and cash equivalents	1,999	1,999	2,615	2,615
Individual and group annuities	66	65	71	70
Debt	1,774	1,811	1,393	1,170

(13) 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 has recently prevailed in a favorable arbitration ruling before an appellate panel regarding Armstrong's insurance coverage. Armstrong filed a Chapter 11 Bankruptcy petition in the United States Bankruptcy Court for the District of Delaware in December 2000 and is still operating under the protection of Chapter 11. A declaratory judgment action, filed by Armstrong in 2002, is pending in the United States District Court for the Eastern District of Pennsylvania seeking coverage for asbestos claims under insurance policies issued to Armstrong during the period of 1973 to 1981, including, but not limited to, damages and a declaration regarding the availability, applicability and scope of alleged non-product coverage not subject to the aggregate limits of the policies. Armstrong contends that a significant portion of its asbestos liability arises from operations that would entitle Armstrong to insurance coverage under the disputed policies without regard to the aggregate limit of liability. The Pennsylvania action is currently in the initial pleading stages and inactive by agreement of the parties. Armstrong has also recently filed, in the same Pennsylvania District Court, a Motion to Vacate the appellate arbitration award that was favorable to the Company. The Company intends to vigorously defend its position. Management believes that the ultimate liability, if any, to Armstrong will not be resolved for at least one year and very likely may not be known for several years. In the opinion of management, the outcome of these pending matters is difficult to predict and in the event of an adverse outcome, could have a material adverse effect on the Company's results of operations, financial condition and liquidity.

The Company is involved in litigation arising from the terrorist attack on September 11, 2001. Multiple litigated matters are pending in various jurisdictions, including the so-called "Silverstein Property Damage Coverage" litigation currently in the first phase of an expected multi-phase trial in the U.S. District Court for the Southern District of New York. This phase is intended to determine which policy language applies to the Silverstein property insurance program. A determination of the applicable language is necessary because Silverstein maintains that the terrorist attack constitutes two occurrences, essentially seeking to double approximately $3,200 in coverage allegedly purchased from numerous insurers. The insurers, including the Company, have taken the position that the events of September 11, 2001 constitute a single occurrence under the property insurance. The Company is also involved in a property coverage dispute related to Tower 7 at the World Trade Center. The Company participates in the excess layer as a reinsurer of Industrial Risk Insurers, one of the participating insurers and a party to this lawsuit. In addition, a liability insurance coverage dispute is pending between Silverstein and various insurance companies, including the Company as an upper layer excess carrier on liability programs for the World Trade Center Properties LLC and Westfield America, Inc., both of whom were leaseholders in the World Trade Center. In addition to these proceedings, a separate coverage lawsuit arises from 42 underlying actions brought as a result of the September 11, 2001 terrorist attack alleging negligent airport security in

Boston and Maine. The Company is a plaintiff in this action. These matters are in various stages of litigation and the Company is comfortable with the reserves that are held.

The Company leases certain office facilities and equipment under operating leases expiring in various years through 2017. Rental expense amounted to $151, $156 and $169 for the years ended December 31, 2003, 2002 and 2001, respectively. Future minimum rental payments under non-cancelable leases with terms in excess of one year are estimated as follows:

2004	$150
2005	128
2006	103
2007	78
2008	57
Thereafter	227
Total	$743

In 2003, the Company entered into an arrangement to sell and leaseback certain equipment. The transaction is accounted for as an operating lease. Rental expense amounted to $9 for the years ended December 31, 2003, 2002 and 2001. Future minimum rental payments under these leases are estimated as follows:

2004	$11
2005	10
2006	10
2007	10
2008	10
Thereafter	23
Total	$74

It is expected that as leases expire they will be replaced.

At December 31, 2003, the Company had unfunded capital commitments to private equity investments of $785.

At December 31, 2003, the Company had commitments to purchase various mortgage-backed securities settling in 2004, at a cost of $510 with a fair value of $516 and are included as fixed maturities in the consolidated balance sheets.

At December 31, 2003, the Company had $697 in assigned structured settlement annuities in connection with the Prudential transaction. The asset and annuity liability of the same amount are correspondingly classified as other assets and other liabilities in the consolidated balance sheets.

Liabilities for guaranty fund and other insurance-related assessments are accrued when an assessment is probable, when it can be reasonably estimated, and when the event obligating the entity to pay an imposed or probable assessment has occurred (based on past premiums for life lines and future premiums for property and casualty lines). Liabilities for guaranty funds and other insurance-related assessments are not discounted and are included as part of other liabilities in the consolidated balance sheets. As of December 31, 2003 and 2002, the liability balance was $172 and $210, respectively. As of December 31, 2003 and 2002, included in other assets were $16 and $7, respectively, of related assets for premium tax offsets or policy surcharges. The related asset is limited to the amount that is determined based on future premium collections or policy surcharges from policies in force. Current assessments are expected to be paid out over the next five years; while premium tax offsets are expected to be realized in the next two years, beginning in 2004.

On October 3, 2001, the Company received notification of the insolvency of the Reliance Insurance Group. This resulted in a guaranty fund assessment against the Company of $104 that was charged to operations for the year ended December 31, 2001.

(14) POLICYHOLDERS' EQUITY

Statutory Surplus

The Statutory surplus of the Company's domestic insurance companies was $7,216 and $5,231 at December 31, 2003 and 2002, respectively. The Company's domestic insurance subsidiaries prepare the statutory basis financial statements in accordance with the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual ("NAIC APP"), subject to any deviations prescribed by the insurance commissioners of the various insurance companies' states of domicile. The Company does not have any material permitted practices that deviate from NAIC APP.

Dividends

The Company's domestic insurance subsidiaries are subject to various regulatory restrictions that limit the maximum amount of dividends that can be paid without the prior approval of insurance regulatory authorities. The maximum amount of dividends to be paid is generally based on surplus and net income. Additionally, as a result of a Keep Well Agreement dated November 28, 2001 between LMIC, LMFIC, certain other affiliates and the Massachusetts Commissioner of Insurance, the maximum dividend payout is also based on the authorized control level risk-based capital of LMIC and Liberty Fire. The maximum dividend payout in 2004 that may be made prior to regulatory approval is $692.

(15) EVENT (Unaudited) SUBSEQUENT TO THE DATE OF THE INDEPENDENT AUDITORS REPORT

In March 2004, the Company issued Senior Notes ("the Notes") in the aggregate principal amounts of $500 and $250 that carry interest rates of 5.75% and 7.00%, and mature in 2014 and 2034, respectively. Interest on the Notes will be paid March 15 and September 15 of each year.

REPORT OF MANAGEMENT

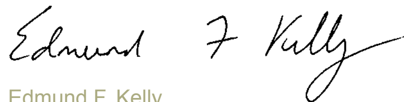
The Board of Directors
Liberty Mutual Holding Company Inc.

The accompanying consolidated financial statements and related information contained in this annual report are the responsibility of management and have been prepared in conformity with generally accepted accounting principles. These consolidated financial statements include amounts that are based on management's estimates and judgments, particularly our reserves for losses and loss adjustment expenses. We believe that these consolidated financial statements present fairly the Company's financial position and results of operations and that other information contained in the annual report is consistent with the consolidated financial statements.

We maintain and rely on a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and transactions are properly authorized and recorded. We continually monitor these internal accounting controls, modifying and improving them as business conditions and operations change. Additionally, our internal audit department independently reviews and evaluates these controls. We believe our systems of internal accounting controls provide reasonable assurance that error or irregularities that would be material to the consolidated financial statements are prevented or detected in the normal course of business.

Our independent auditors, Ernst & Young LLP, have audited the consolidated financial statements and expressed their opinion on the fairness of these consolidated financial statements. Their audit provides an independent, objective review of our consolidated financial statements. They review our internal controls and procedures, perform tests of accounting records, and conduct other auditing procedures as they consider necessary to comply with auditing standards generally accepted in the United States.

The Audit Committee of the Board of Directors, comprised solely of outside directors, oversees management's discharge of its financial reporting responsibilities. The Audit Committee meets periodically with management, our internal auditors and representatives from Ernst & Young LLP to discuss auditing, financial reporting and internal control matters. Both our internal audit department and Ernst & Young LLP have access to the Audit Committee without management's presence.



Edmund F. Kelly
Chairman, President and Chief Executive Officer

Dennis J. Langwell
Senior Vice President and Chief Financial Officer

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Liberty Mutual Holding Company Inc.

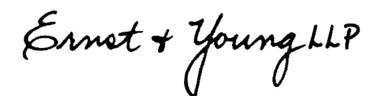
We have audited the accompanying consolidated balance sheets of Liberty Mutual Holding Company Inc. and subsidiaries (the Company) as of December 31, 2003 and 2002, and the related consolidated statements of income, changes in policyholders' equity, and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Liberty Mutual Holding Company Inc. and subsidiaries at December 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 to the consolidated financial statements, in 2002, the Company adopted Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" and the remaining provisions of Financial Accounting Standards No. 141, "Business Combinations".

As discussed in Note 1 to the consolidated financial statements, in 2001, the Company adopted Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities".



Boston, Massachusetts
February 27, 2004

BOARD OF DIRECTORS > LIBERTY MUTUAL HOLDING COMPANY INC.

Michael J. Babcock
Private Investor
New York, New York

Gary C. Butler
President and Chief Operating Officer
Automatic Data Processing, Inc.
Roseland, New Jersey

Charles I. Clough, Jr.
Chairman and Chief Executive Officer
Clough Capital Partners, LP
Boston, Massachusetts

Gary L. Countryman
Chairman Emeritus
Liberty Mutual Insurance Company
Liberty Mutual Fire Insurance Company
Boston, Massachusetts

Paul J. Darling, II
President and Chief Executive Officer
Corey Steel Company
Cicero, Illinois

Francis A. Doyle, III
President and Chief Executive Officer
Connell Limited Partnership
Boston, Massachusetts

John P. Hamill
Chairman and Chief Executive Officer
Sovereign Bank New England
Boston, Massachusetts

Marian L. Heard
President and Chief Executive Officer
United Way of Massachusetts Bay
Boston, Massachusetts

Edmund F. Kelly
Chairman, President and Chief Executive Officer
Liberty Mutual Holding Company Inc.
Boston, Massachusetts

Thomas J. May
Chairman, President and Chief Executive Officer
NSTAR
Boston, Massachusetts

Stephen F. Page
Retired Vice Chairman and Chief Financial Officer
United Technologies Corporation
Hartford, Connecticut

Dr. Kenneth L. Rose
Retired Vice Chairman and Co-Chief Executive Officer
Henkels & McCoy, Inc.
Blue Bell, Pennsylvania

Ellen A. Rudnick
Executive Director and Clinical Professor, Polsky Center for Entrepreneurship
University of Chicago Graduate School of Business
Chicago, Illinois

Glenn P. Strehle
Treasurer Emeritus
Massachusetts Institute of Technology
Cambridge, Massachusetts

William C. Van Faasen
Chairman and Chief Executive Officer
Blue Cross and Blue Shield of Massachusetts, Inc.
Boston, Massachusetts

CORPORATE OFFICERS

Edmund F. Kelly
Chairman, President and Chief Executive Officer

J. Paul Condrin III
Executive Vice President

Gary R. Gregg
Executive Vice President

Roger L. Jean
Executive Vice President

Thomas C. Ramey
Executive Vice President

Terry L. Conner
Senior Vice President and Chief Information Officer

A. Alexander Fontanes
Senior Vice President and Chief Investment Officer

Dennis J. Langwell
Senior Vice President and Chief Financial Officer

Christopher C. Mansfield
Senior Vice President and General Counsel

Robert T. Muleski
Senior Vice President

Helen E.R. Sayles
Senior Vice President

Stephen G. Sullivan
Senior Vice President

John D. Doyle
Vice President and Comptroller

Dexter R. Legg
Vice President and Secretary

Laurance H.S. Yahia
Vice President and Treasurer

PERSONAL MARKET

J. Paul Condrin III
Executive Vice President and Manager

Regional Vice Presidents
Lewis R. Ayers
Thomas M. Jones
Louis F. Knecht, Jr.
Maureen E. Lyden
James T. Masterson
Michael J. Mott
Edward A. Notarpole
Marie A. Ward

Individual Life Market
John A. Tymochko
Chief Operating Officer

COMMERCIAL MARKETS

Gary R. Gregg
Executive Vice President and Manager

Business Market
John M. Collins
Chief Operating Officer

Douglas M. Nelson
Executive Vice President

Senior Vice Presidents and Division Managers
James D. Barrett
Robert J. Brautigam
Thomas P. Coyne
James A. Dupont
Bryan M. Grimm
David Radakovich
Thomas R. Rudder, Jr.
Mark C. Touhey
Laura Wehrle
E. Janney Wilson

National Market
David H. Long
Chief Operating Officer

Mark A. Butler
Executive Vice President and General Manager, Field Operations

Donald J. Pickens
Senior Vice President and Chief Underwriting Officer

Specialty Risk Market
Scott R. Goodby
Chief Operating Officer

Timothy J. Rose
President
Liberty Mutual Property

Dennis S. Perler
President
Liberty Mutual Surety

Group Market
Jean M. Scarrow
Chief Operating Officer

Wausau Commercial Market
Joseph A. Gilles
Chief Operating Officer

LIBERTY INTERNATIONAL

Thomas C. Ramey
President
Liberty International

Ian Faragher
Chief Operating Officer
Asia

Joseph H. Hamilton
Chief Operating Officer
Europe

Victor A. Meintjes
Chief Operating Officer
Latin America

Luis Bonell
President
Liberty Seguros
Spain

A.K. Cher
Managing Director
Liberty Citystate Insurance PTE, Ltd.
Hong Kong/Singapore

Mauricio Garcia
President
Liberty Seguros SA, Colombia

John Kimber
Manager, China

Robert L. Martin
President
Narai International Insurance
Thailand

Luis Maurette
President
Liberty Paulista Seguros, Brazil

Thomas O'Dore
Manager, Vietnam

Basilio Pugatchenko
President
Liberty ART SA and Liberty Seguros
Argentina

Roberto Salas
President
Seguros Caracas de Liberty Mutual
Venezuela

Jose Antonio de Sousa
President
Liberty Seguros, Portugal

Jik Tay
Managing Director
Liberty International Insurance
Hong Kong

Liberty International Underwriters

Gordon J. McBurney
President
Liberty International Underwriters

Sean Dalton
Managing Director
Liberty Syndicate Management

Sean Rocks
Managing Director
Liberty Mutual Insurance Company (U.K.)

Michael J. Abdullah
President
LIU Asia Pacific

Nicholas J. Conca
President
LIU USA

Mike Molony
President
LIU Canada

REGIONAL AGENCY MARKETS

Roger L. Jean
President

Michael R. Christiansen
Executive Vice President

Mark Fiebrink
Executive Vice President

Geoffrey E. Hunt
Executive Vice President

Richard T. Bell
President and Chief Executive Officer
Indiana Insurance Company

Michael D. Connell
President and Chief Executive Officer
Hawkeye-Security Insurance Company

Philip J. Broughton
President and Chief Executive Officer
America First Insurance Company

Dwight T. Bowie
President and Chief Executive Officer
Peerless Insurance Company

Donald E. Frette
President and Chief Executive Officer
Colorado Casualty Insurance Company

John C. Robinson
President and Chief Executive Officer
Montgomery Insurance Company

Ricky T. Hodges
President and Chief Executive Officer
Summit Holding Southeast, Inc.

Frank J. Kotarba
President and Chief Executive Officer
Golden Eagle Insurance Corporation

Kevin J. Kirschner
President and Chief Executive Officer
GoAmerica Auto Insurance

CALIFORNIA (NORTHERN)

Michael J. Bodell
President and Chief Executive Officer
Bodell Construction Company
Salt Lake City, Utah

James C. Champion
Chairman of the Board
Champion Industrial Contractors
Modesto, California

William H. Child
President and Chief Executive Officer
R. C. Willey Home Furnishings Inc.
Salt Lake City, Utah

Robert C. Cookson
President and Chief Executive Officer
The Cookson Company Inc.
Phoenix, Arizona

Herman G. Rowland, Sr.
Chairman of the Board
Herman Goelitz Candy Company, Inc.
Fairfield, California

John J. Thul
President
Arizona Precision Sheet Metal
Phoenix, Arizona

CALIFORNIA (SOUTHERN)

Rod Barham
Chief Executive Officer
HDOS Enterprises
San Diego, California

Harold C. Bennett
President
Utility Trailer Manufacturing Company
City of Industry, California

Robert A. Curry
President
California Cartage Co., Inc.
Long Beach, California

Anthony P. Souza
President
MPA, Inc.
La Mirada, California

Frank S. Wyle
Founder and Chairman
Wyle Electronics
El Segundo, California

DELAWARE

Richard S. Barr
Chairman
Barr International, Inc.
Salisbury, Maryland

John S. Bonk
President
M. Davis & Sons, Inc.
Wilmington, Delaware

Robert D. Burris
President
Burris Logistics
Milford, Delaware

Eugene M. Julian
President
Eastern States Development Co., Inc.
Newark, Delaware

Alan B. Levin
Chairman, President and
Chief Executive Officer
Happy Harry's, Inc.
Newark, Delaware

Terrence M. Shannon
President and Chief Executive Officer
I.D. Griffith, Inc.
Wilmington, Delaware

William C. Robertson, Jr.
President
PENCO Corporation
Seaford, Delaware

P. Coleman Townsend, Jr.
Chairman and Chief Executive Officer
Townsends, Inc.
Wilmington, Delaware

FLORIDA

Richard W. Ebsary
President
Ebsary Foundation Company, Inc.
Miami, Florida

H. Britt Landrum, Jr.
Chief Executive Officer
AmStaff Human Resources, Inc.
Pensacola, Florida

Robert A. Lopez
President
General Asphalt Company, Inc.
Miami, Florida

Eugene McNichols
President
McNichols Company
Tampa, Florida

Martin E. Murphy
President and Chief Executive Officer
Murphy Construction Company, Inc.
West Palm Beach, Florida

George Pantuso
President and Owner
Circle H.Citrus Company
Ft. Pierce, Florida

Kenneth N. Schulz
President
Polk Nursery Company, Inc.
Auburndale, Florida

Charles W. Stiefel
President
Stiefel Laboratories, Inc.
Coral Gables, Florida

Kenneth N. Trask
President and Chief Executive Officer
Conshor, Inc.
Bonita Springs, Florida

GEORGIA

Fred R. Keith
President
Atlanta Bonded Warehouse
Corporation
Kennesaw, Georgia

Howell W. Newton
President
Trio Manufacturing Company
Forsyth, Georgia

William W. Scogin, Jr.
President.
Stasco Mechanical Contractors, Inc.
Marietta, Georgia

Robert P. Shapard, III
President
American Knitting Mills
Griffin, Georgia

INDIANA

Robert R. Baylor
President
Baylor Trucking, Inc.
Milan, Indiana

Mike Mount
President
Mount Trucking, Inc.
Columbus, Indiana

Dean W. Pfister
Former Secretary – Retired
Franklin Electric Company
Ft. Wayne, Indiana

Terry L. Tucker
Chairman, President and Chief
Executive Officer
Maple Leaf Farms, Inc.
Milford, Indiana

KENTUCKY

Robert W. Byrd
Chairman of the Board of Directors
The Keller Manufacturing Co., Inc.
Corydon, Indiana

Don C. Haas
President
Haas Carriage Co., Inc.
Sellersburg, Indiana

William H. Harrison, Jr.
President
Number Fourteen Corporation
Louisville, Kentucky

Fred J. Merrick, Sr.
Chief Executive Officer and President
Multi-Industries, Incorporated
Louisville, Kentucky

Robert G. Pfeiffer
Chairman of the Board and
Chief Executive Officer
Neill-LaVielle Supply Co.
Louisville, Kentucky

MARYLAND

Wayne Gaumer
President
Lightning Transportation
Hagerstown, Maryland

Michael E. Holupka
Partner
The Anderson Company, LLC
Manassas, Virginia

Joseph A. Hunt
President
Westat, Inc.
Rockville, Maryland

T. Kenneth Joy
President
The Joy Companies, Inc.
Hyattsville, Maryland

Ernest D. Levering
President
Ramsay, Scarlett & Co., Inc.
Baltimore, Maryland

Carl A. Ressa
President
A. S. Johnson Company, Inc.
Forestville, Maryland

Craig M. Smith
Principal
The Creaney & Smith Group
Baltimore, Maryland

MASSACHUSETTS

Ara Aykanian
Former Chairman and
Chief Executive Officer
Boston Digital Corporation
Framingham, Massachusetts

Salvatore A. Balsamo
Chairman and Chief Executive Officer
Technical Aid Corporation
d/b/a TAC Worldwide Company
Dedham, Massachusetts

Michael F. Foley
President
M. F. Foley, Inc.
New Bedford, Massachusetts

Wayne J. Griffin
President
Wayne J. Griffin Electric Inc.
Holliston, Massachusetts

Benjamin D. Harrington
Chief Executive Officer and Treasurer
H. P. Cummings Construction
Company, Inc.
Ware, Massachusetts

Charles B. Housen
Chairman, President and
Chief Executive Officer
Erving Industries, Inc.
Erving, Massachusetts

Robert M. Kennedy
Executive Vice President and
Treasurer
Kennedy Die Castings, Inc.
Worcester, Massachusetts

Daniel G. Larson
President
Larson Tool & Stamping Company
Attleboro, Massachusetts

Michael J. McDougall
President
Michael J. McDougall Art
Beverly, Massachusetts

Edward O. Owens
President
Henry F. Owens, Inc.
Everett, Massachusetts

Alfred J. Pandiani
Treasurer
National Glass Works, Inc.
Worcester, Massachusetts

Sidney D. Wolk
Chairman and Chief Executive Officer
Cross Country Group
Medford, Massachusetts

James Zampell
President and Chief Executive Officer
Zampell Refractories, Inc.
Newburyport, Massachusetts

MICHIGAN

Jeffrey A. Coolsaet
President
R. L. Coolsaet Construction Company
Taylor, Michigan

Fred H. May
President and Chief Executive Officer
Saginaw Control & Engineering, Inc.
Saginaw, Michigan

David Moxlow
President
Trenton Forging Company, Inc.
Trenton, Michigan

Jeffrey S. Padnos
President
Louis Padnos Iron & Metal Company
Holland, Michigan

Joseph Schneider
President
Madison Electric Company/Standard
Electric Company
Warren, Michigan

Charles A. Van Zoeren
Chairman of the Board and
Chief Executive Officer
Alvan Motor Freight, Inc.
Kalamazoo, Michigan

MIDDLE WEST

William J. Darley
Chief Executive Officer and
Chairman of the Board
William S. Darley & Company
Melrose Park, Illinois

Paul J. Darling, II
President and Chief Executive Officer
Corey Steel Company
Chicago, Illinois

Alfred F. Krumholz, Jr.
President
Chicago Boiler Company
Gurnee, Illinois

David W. Marx
President
New World Van Lines, Inc.
Chicago, Illinois

Joseph A. Pycz, III
President
Krupp Gerlach Company
Danville, Illinois

MINNESOTA

John S. Elder
President
Elder Jones, Inc.
Bloomington, Minnesota

Ralph E. Gross
President
SPS Companies, Inc.
Minneapolis, Minnesota

John W. Lettmann
President and Chief Executive Officer
Malt-O-Meal Company
Minneapolis, Minnesota

John Roswick
President
Midwest Motor Express, Inc.
Bismarck, North Dakota

Gary B. Sauer
President
Tiller Corporation
Maple Grove, Minnesota

MISSOURI

Roy L. Burns
President and Chief Executive Officer
Lionmark Construction Companies
St. Louis, Missouri

Joseph Burstein
Chairman of the Board
Leonard's Metal, Inc.
Creve Coeur, Missouri

Todd J. Korte
President
Korte Construction Company
Highland, Illinois

Thom Kuhn
Executive Vice President and
Chief Administrative Officer
Millstone Bangert, Inc.
St. Charles, Missouri

Scott W. Meader
President and Chief Executive Officer
Milnot Holding Corporation
St. Louis, Missouri

Zsolt Rumy
Chairman, Chief Executive Officer
and President
Zoltek Companies, Inc.
St. Louis, Missouri

NEW JERSEY

Candida C. Aversenti
President and Chief Operating Officer
General Magnaplate Corporation
Linden, New Jersey

Edward C. Hoeflich
Moorestown, New Jersey

Richard W. Kanter
President
Miller Construction Company
Jersey City, New Jersey

Theodore J. Reiss
President
Reiss Corporation
Englishtown, New Jersey

Richard C. Robinson
President
Adronics/Elrob Manufacturing Corp.
Cedar Grove, New Jersey

Thomas Rogers
President
Rogers Transfer, Inc.
Great Meadows, New Jersey

Allan Weissglass
President
Magruder Color Company, Inc.
Elizabeth, New Jersey

NEW YORK

Lawrence N. Cohen
Management Consulting
LN Cohen & Associates
Jupiter, Florida

Robert C. Goldsmith
Associate Executive Director and
Chief Operating Officer
Association for the Help of
Retarded Children
New York, New York

Richard G. Kirschner
Chief Operating Officer
Jetro Cash & Carry
College Point, New York

William G. Murphy
Vice President
Halmar Contracting Inc.
Newburgh, New York

Todd Nugent
President
T.F. Nugent
New York, New York

Ira Salzman
President
Slomins, Inc.
Hicksville, New York

Howard E. Wallack
President and Chief Executive Officer
Jonrob Leasing Corp.
Park City, Utah

Ronald A. Yakin
President
American Pecco Corporation
Millwood, New York

NEW YORK STATE

Richard A. Cognetti
Chairman of the Board and
Chief Executive Officer
Kinney Drugs, Inc.
Gouverneur, New York

Paul J. DeCarolis
President
DeCarolis Truck Rental, Inc.
Rochester, New York

Michael Dranichak
Acting Chief Executive Officer
L&B Contracting Industries, Inc.
Menands, New York

Frederic J. Durkin
Chairman of the Board
Transportation Consultants, Inc.
Minoa, New York

Marianne W. Gaige
President and Chief Operating Officer
Cathedral Corporation
Rome, New York

Kirk B. Hinman
President
Rome Strip Steel Co., Inc.
Rome, New York

John D. Zink
Executive Vice President and
Chief Operating Officer
Gypsum Express Ltd.
Baldwinsville, New York

NORTH CAROLINA

Jerome W. Bolick
President
Southern Furniture Company of
Conover, Inc.
Conover, North Carolina

J.M. Carstarphen, III
President, Chief Executive Officer and
Chairman of the Board
Stowe-Pharr Mills
McAdenville, North Carolina

Otis A. Crowder
President and Chief Executive Officer
Crowder Construction Company
Charlotte, North Carolina

Ron E. Doggett
Retired – Former Chairman and
Chief Executive Officer
GoodMark Foods, Inc.
Raleigh, North Carolina

Edward P. Schrum
Retired – President, Chief Executive
Officer and Treasurer
Carolina Mills, Inc.
Conover, North Carolina

Parks C. Underdown, Jr.
Chairman, Board of Directors
Hickory Springs Manufacturing Co.
Hickory, North Carolina

NORTHERN NEW ENGLAND

Robert N. Bass
Retired – Former President,
Chief Executive Officer and Chairman
G.H. Bass and Company
Cumberland Foreside, Maine

Michael Dolan, Jr.
President
Busy Bee Janitorial Service
Somersworth, New Hampshire

Alvin D. Felgar
Chief Executive Officer
Frisbee Memorial Hospital
Rochester, New Hampshire

Jon Gregory
President
Quarry Division Rock of Ages
Corporation
Northfield, Vermont

Robert L. Gustafson
President
Thompson Center Arms
Rochester, New Hampshire

William R. Lochhead
President and General Manager
Lochhead Realty Company, Inc.
Nashua, New Hampshire

Barry E. Pottle
President
Pottle's Transportation, Inc.
Bangor, Maine

William D. Purington
President
Maine Drill and Blasting
Gardiner, Maine

Thomas Hedley Reynolds
Former President
University of New England
Biddeford, Maine

Alvan A. Traffie
President
Hutter Construction Corporation
New Ipswich, New Hampshire

OHIO

Robert E. Alspaugh
President
SCT Corporation
Alden, Michigan

Bruce C. Gilbert
Chairman
Great Lakes Construction Company
Key Largo, Florida

David W. Hackbirth
President
Business Concepts, Inc.
Akron, Ohio

Jon E. Jenson
President
Precision Metal Forming Association
Independence, Ohio

Jefferson W. Keener, Jr.
President
The Chardon Rubber Company
Chardon, Ohio

Lee R. Radcliffe
President
Jefferson Trucking Co.
Lorain, Ohio

PENNSYLVANIA

T. Roderick Henkels
Chief Operating Officer
Henkels & McCoy, Inc.
Blue Bell, Pennsylvania

Ray B. Mundt
Retired – Former Chairman and
Chief Executive Officer
Unisource Worldwide, Inc.
Rosemont, Pennsylvania

Robert W. Palaima
President
Delaware River Stevedores, Inc.
Philadelphia, Pennsylvania

Leo Pasini
President and Chief Operating Officer
Fisher Tank Company
Chester, Pennsylvania

John W. Rex
President
Rex Heat Treat
Lansdale, Pennsylvania

Henry L. Rosenberger
Chairman and Chief Executive Officer
Rosenberger Companies LTD
Blooming Glen, Pennsylvania

PITTSBURGH

Richard L. Carrara
President
Amthor Steel
Erie, Pennsylvania

Lee B. Foster, II
President and Chief Executive Officer
L.B. Foster Company
Pittsburgh, Pennsylvania

Charles J. Hora, Jr.
President
Lord Corporation
Cary, North Carolina

Robert A. Paul
President and Chief Executive Officer
Ampco-Pittsburgh Corporation
Pittsburgh, Pennsylvania

William G. Perrine
President and Chief Executive Officer
Sharon Tube Company
Sharon, Pennsylvania

Steven B. Stein
Consultant
Pittsburgh, Pennsylvania

T. Philip Stout
President and Chief Executive Officer
Atlas Services Corporation
Washington, Pennsylvania

ROCKY MOUNTAIN

Demetrios C. Daskalos
President
Atlas Resources, Inc.
Albuquerque, New Mexico

Robert Millwee
President and Chief Executive Officer
Garney Construction
Kansas City, Missouri

Edward Routzon
President
Guy's Floor Service, Inc.
Denver, Colorado

Wayne E. Simmonds
President and Chief Executive Officer
FBG Service Corporation
Omaha, Nebraska

Brad N. Spencer
President and Chief Executive Officer
Ernest Spencer Metals, Inc.
Meriden, Kansas

Diemer True
Partner
True Oil Company
Casper, Wyoming

SOUTH CAROLINA

MacFarlane L. Cates, Jr.
President and Treasurer
Arkwright Mills
Spartanburg, South Carolina

Robert H. Chapman
President
Inman Mills
Inman, South Carolina

Peter E. Frohlich
Chief Executive Officer
Bommer Industries, Inc.
Landrum, South Carolina

H. Morgan Haskell
Retired – Former President and
Treasurer
Brunswick Worsted Mills, Inc.
Hilton Head, South Carolina

Walter Scott Montgomery, Jr.
Chairman and Chief Executive Officer
Montgomery Industries, Inc.
Spartanburg, South Carolina

Richard H. Pennell
Chairman and Chief Executive Officer
Metromont Prestress Company
Greenville, South Carolina

Danny T. Phillips
President
J. Frank Blakely Company
Spartanburg, South Carolina

SOUTHERN NEW ENGLAND

Joseph Arborio
President
Arborio Corporation
Cromwell, Connecticut

Gordon M. Clark
Chief Executive Officer and Treasurer
The W.I. Clark Company/WICO Aviation, Inc.
Wallingford, Connecticut

Edward M. Crowley
President
Dichello Distributors, Inc.
Orange, Connecticut

Glen A. Harper
Chairman of the Board
The Waterbury Plating Company
Waterbury, Connecticut

Penfield Jarvis
President
Penco Corp./Jarvis Group
Hartford, Connecticut

Thomas F. Moore
Chairman
The Moore Company
Westerly, Rhode Island

Robert W. Parsons
President and Chief Executive Officer
A. H. Harris & Sons, Inc.
Newington, Connecticut

Daniel Sabia
President
BKM Enterprises, Inc.
East Hartford, Connecticut

David T. Shopis
President and Chief Executive Officer
The FIP Corporation
Cheshire, Connecticut

SOUTHWEST (NORTHERN)

James H. Alexander
President
Central Transportation Systems, Inc.
Waco, Texas

John B. Bartling
President and Chief Executive Officer
Walden
Addison, Texas

Timothy W. Byrne
President and Chief Executive Officer
United States Lime & Minerals, Inc.
Dallas, Texas

L. Decker Dawson
Chairman of the Board and Chief Executive Officer
Dawson Geophysical Company
Midland, Texas

George R. Frymire
Chairman and President
Frymire Engineering Co., Inc.
Dallas, Texas

Robert D. Gillikin
President
Cummins Southern Plains, Inc.
Arlington, Texas

Randall L. Kressler
President and Chief Executive Officer
Lubrication Engineers, Inc.
Fort Worth, Texas

Raymond Marlow
Chairman and Chief Executive Officer
Marlow Industries, Inc.
Dallas, Texas

Roger Mashore
President and Chief Operating Officer
Midwest Trophy Manufacturing Company, Inc.
Del City, Oklahoma

A.H. McElroy, II, P.E.
President and Chief Executive Officer
McElroy Manufacturing Inc.
Tulsa, Oklahoma

R.E. Roberts
Chairman
Entrada Corporation
Cleburne, Texas

Jerry D. Rohane, P.E.
President
Western Builders of Amarillo, Inc.
Amarillo, Texas

SOUTHWEST (SOUTHERN)

Phyllis A. Adams
President
Phylway Construction, LLC
Thibodaux, Louisiana

Robert A. Beeley
Chairman
Dixie Pipe Sales, LP
Tomball, Texas

Wallace Brasuell, P.E.
President and Chief Executive Officer
I.A. Naman + Associates, Inc.
Houston, Texas

Terry W. Davis
Chairman and President
TD Rowe Amusements, Inc.
Houston, Texas

Jon G. Ford
President
Todd-Ford, Inc.
San Antonio, Texas

A. Bruce Gerhardt
President
Gerhardt's, Inc.
Jefferson, Louisiana

Charles E. Hinkle
President
C & H Die Castings, Inc.
Temple, Texas

Jack M. Introligator
Vice President
Plant & Machinery, Inc.
Houston, Texas

Leonard N. Martin
Chairman of the Board
Mustang Tractor & Equipment Company
Houston, Texas

Christopher T. Seaver
President and Chief Executive Officer
Hydril Company
Houston, Texas

Mark T. Scully
President
T.A.S. Commercial Concrete Construction LP
Spring, Texas

TENNESSEE

Gregory D. Brown
President
B.R. Williams Trucking
Oxford, Alabama

Stanley K. Dunbar
President and Chief Executive Officer
Moody Dunbar, Inc.
Johnson City, Tennessee

Robert W. Klyce
President and Chief Executive Officer
Car and Truck Rental, Inc.
Birmingham, Alabama

Paul A. Martin
Chairman of the Board and Chief Executive Officer
DWC Construction Company, Inc.
Nashville, Tennessee

Leroy McAbee, Sr.
Chief Executive Officer
McAbee Construction, Inc.
Tuscaloosa, Alabama

William L. Schaff
President
The Mapes Piano String Company
Elizabethton, Tennessee

John E. Seward, Jr.
Chairman of the Board and Chief Executive Officer
PLC, Inc.
Johnson City, Tennessee

VIRGINIA

Frank Armstrong, III
Chairman and President
National Fruit Product Company Inc.
Winchester, Virginia

A. Douglas Dalton, Jr.
President and Chief Executive Officer
English Construction Co., Inc.
Lynchburg, Virginia

Hubert Jackson Deaton, III, P.E.
President
Schnabel Foundation Company
Sterling, Virginia

J. Spencer Frantz, Sr.
Vice Chairman
Graham-White Manufacturing Company
Salem, Virginia

James T. Holland
Retired – Former President
O'Sullivan Group
Winchester, Virginia

Robert Hedrick
President and Chief Executive Officer
Sprinkle Masonry, Inc.
Chesapeake, Virginia

Lloyd U. Noland, III
Chairman and President
Noland Company
Newport News, Virginia

Harry G. Norris
President
Howell's Motor Freight, Inc.
Roanoke, Virginia

Edward J. Reed
President
Givens, Inc. and Givens Trucking Co., Inc.
Chesapeake, Virginia

Robert H. Spilman
Retired – Former Chairman of the Board
Bassett Furniture Industries, Inc.
Bassett, Virginia

C. Kenneth Wright
Chairman of the Board
Wright Properties, Incorporated
Glen Allen, Virginia

WISCONSIN

Joseph A. Daniels
President
Joe Daniels Construction Co.
Madison, Wisconsin

Ronald Deabler
President
American Technical Services, Inc.
Brookfield, Wisconsin

Franklyn Esenberg
Chairman of the Board
Interstate Forging Industries, Inc.
Menomonee Falls, Wisconsin

Michael E. Stroh
President
Stroh Die Casting Co., Inc.
Milwaukee, Wisconsin

William J. Troyk
President
Roadrunner Freight Systems, Inc.
Cudahy, Wisconsin

William J. Webster
Chairman of the Board
Crescent Woolen Mills Company
Two Rivers, Wisconsin

Liberty Mutual Holding Company Inc. holds its annual meeting on the second Wednesday of April at 10 a.m. at the headquarters in Boston.

Policyholders of Liberty Mutual Insurance Company (a stock insurance company), Liberty Mutual Fire Insurance Company (a stock insurance company) and Employers Insurance Company of Wausau (a stock insurance company) are members of Liberty Mutual Holding Company Inc. If you are a policyholder of any one of these entities at the time of such meetings, you are entitled to vote, either in person or by proxy. You may obtain a proxy form by writing to the Secretary of Liberty Mutual Holding Company Inc. at 175 Berkeley Street, Boston, MA 02117.