

Liberty Mutual Group Reports Third Quarter 2005 Results

BOSTON, Mass., November 2, 2005 – Liberty Mutual Group (“LMG” or the “Company”) today reported a net loss of \$122 million and net income of \$774 million for the three and nine months ended September 30, 2005, respectively, representing increases of \$111 million and \$94 million over the same periods in 2004. Results in both periods include \$658 million of after-tax catastrophes losses related to Hurricanes Katrina and Rita and \$132 million of after-tax incurred losses related to the completion of the Company’s biennial ground-up asbestos reserve study.

“Portraying the effects of natural disasters like Hurricanes Katrina and Rita strictly in financial terms masks the devastating human tragedy these events caused,” said Edmund F. Kelly, Liberty Mutual Group Chairman, President and CEO. “We are in the business of helping people recover from these types of disasters. It’s what we do and fortunately we have the financial strength to readily absorb these kinds of events.”

Third Quarter Highlights

- Revenues for the three months ended September 30, 2005 were \$5.386 billion, an increase of \$504 million or 10.3% over the same period in 2004.
- Net written premium for the three months ended September 30, 2005 was \$4.546 billion, an increase of \$323 million or 7.6% over the same period in 2004.
- Pre-tax loss for the three months ended September 30, 2005 was \$190 million, an increase of \$182 million over the same period in 2004.
- Cash flow from operations for the three months ended September 30, 2005 was \$1.407 billion, an increase of \$444 million or 46.1% over the same period in 2004.
- The combined ratio before catastrophes, net incurred losses attributable to prior years and discount accretion for the three months ended September 30, 2005 was 92.8%, a decrease of 0.4 points from the same period in 2004. Including the impact of catastrophes, net incurred losses attributable to prior years and discount accretion, the Company’s combined ratio increased 6.8 points to 118.3% in 2005.

Year-to-Date Highlights

- Revenues for the nine months ended September 30, 2005 were \$15.647 billion, an increase of \$1.280 billion or 8.9% over the same period in 2004.
- Net written premium for the nine months ended September 30, 2005 was \$13.624 billion, an increase of \$412 million or 3.1% over the same period in 2004.
- Pre-tax income for the nine months ended September 30, 2005 was \$845 million, an increase of \$178 million or 26.7% over the same period in 2004.
- Cash flow from operations for the nine months ended September 30, 2005 was \$3.154 billion, an increase of \$638 million or 25.4% over the same period in 2004.
- The combined ratio before catastrophes, net incurred losses attributable to prior years and discount accretion for the nine months ended September 30, 2005 was 94.9%, a decrease of 1.2 points from the same period in 2004. Including the impact of catastrophes, net incurred losses attributable to prior years and discount accretion, the Company’s combined ratio increased 1.2 points to 105.7% in 2005.

Financial Condition as of September 30, 2005

- Total assets increased to \$77.851 billion as of September 30, 2005, an increase of \$5.492 billion or 7.6% over December 31, 2004.
- Policyholders' equity was \$9.072 billion as of September 30, 2005, an increase of \$375 million or 4.3% over December 31, 2004.
- Net unrealized gains on fixed maturities, net of tax as of September 30, 2005 were \$461 million, a decrease of \$398 million or 46.3% from December 31, 2004.
- Statutory surplus as regards policyholders for the combined operations of Liberty Mutual Insurance Company ("LMIC") and its U.S. affiliates was \$9.570 billion, an increase of \$831 million or 9.5% over December 31, 2004.
- The consolidated debt to capital ratio including accumulated other comprehensive income ("AOCI") as of September 30, 2005 was 22.2%, an increase of 1.1 points over December 31, 2004. Excluding AOCI, the consolidated debt to capital ratio was 24.0%, an increase of 0.2 points over December 31, 2004.

Consolidated Results of Operations for the Three and Nine Months Ended September 30, 2005:

\$ in Millions	Three Months Ended September 30,			Nine Months Ended September 30,		
	2005	2004	Change	2005	2004	Change
Revenues	\$5,386	\$4,882	10.3%	\$15,647	\$14,367	8.9%
PTOI before catastrophes, net incurred losses attributable to prior years and discount accretion	\$730	\$639	14.2%	\$1,806	\$1,492	21.0%
Catastrophes ^{1,2} :						
- Hurricane Katrina	(818)	-	NM	(809)	-	NM
- Four hurricanes 2004	(18)	(563)	(96.8)	(62)	(553)	(88.8)
- All other	(98)	(32)	NM	(178)	(128)	39.1
Net incurred losses attributable to prior years:						
- Asbestos	(208)	-	NM	(210)	(4)	NM
- All other ³	74	(103)	NM	(9)	(237)	(96.2)
Discount accretion ⁴	(25)	(24)	4.2	(72)	(72)	-
Pre-tax operating (loss) income	(363)	(83)	NM	466	498	(6.4)
Realized investment gains, net	173	75	130.7	379	169	124.3
Federal and foreign income tax benefit (expense)	68	-	NM	(59)	-	NM
Discontinued operations, net of tax	-	(3)	100.0	(12)	13	NM
Net (loss) income	(\$122)	(\$11)	NM	\$774	\$680	13.8%

¹ Catastrophe losses from assumed reinsurance lines (assumed voluntary reinsurance and reinsurance assumed through Lloyd's Syndicate 4472) relating to Hurricane Katrina and the four hurricanes 2004 have been separately identified in the tables above given the significance of these events. All other catastrophe losses from assumed reinsurance lines have not been separately identified or normalized given the expected volatility associated with these coverages. Losses related to Hurricane Katrina for the three and nine months ended September 30, 2005 include the reversal of \$98 million of profit sharing on external reinsurance accrued in 2004 and the first half of 2005. In addition, losses related to Hurricane Katrina and the four hurricanes 2004 are net of the Company's reasonable assumption of expected catastrophe activity (defined as "net catastrophe reinsurance premium earned"). Catastrophe losses include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

² Assumed catastrophe losses related to Hurricane Katrina are reported net of estimated net catastrophe reinsurance premium earned of \$82 million and \$91 million for the three and nine months ended September 30, 2005, respectively. Assumed

catastrophe losses related to the four hurricanes 2004 are reported net of estimated net catastrophe reinsurance premium earned of \$154 million and \$164 million for the comparable periods of 2004.

³ Net of earned premium attributable to prior years of \$31 million and \$40 million for the three and nine months ended September 30, 2005, respectively, and (\$3) million and \$55 million for the comparable periods of 2004. Net of amortization of deferred gains on retroactive reinsurance of \$21 million and \$78 million for the three and nine months ended September 30, 2005, respectively, and \$12 million and \$35 million for the comparable periods of 2004.

⁴ The Company discounts the long-term indemnity portion of its workers compensation claims as permitted by insurance regulations. The discount accretion on these claims is included in underwriting results as the loss reserves accrete to nominal value. Asbestos structured settlements are discounted at 4.5%.

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

Financial Information: Liberty Mutual Group's financial results, management's discussion and analysis of operating results and financial condition, accompanying financial statements and other supplemental financial information for the three and nine months ended September 30, 2005 are available on the Company's Investor Relations web site at www.libertymutual.com/investors.

Conference Call Information: At 2:00 p.m. EST today, Edmund F. Kelly, Liberty Mutual Group Chairman, President and CEO, will host a conference call to discuss the Company's financial results. To listen to the call and participate in Q&A, please dial 877-825-5811 fifteen minutes before the starting time using conference ID number 6583641. A replay will be available until November 9, 2005, at 877-519-4471 using the reservation number 6583641.

About Liberty Mutual Group

Boston-based Liberty Mutual Holding Company Inc., the parent corporation of the Liberty Mutual Group of entities ("LMG" or the "Company"), is a diversified global insurer and sixth largest property and casualty insurer in the U.S. based on 2004 direct written premium. The Company also ranks 111th on the Fortune 500 list of largest corporations in the United States based on 2004 revenue. As of December 31, 2004, LMG had \$72.4 billion in consolidated assets and \$19.6 billion in annual consolidated revenue.

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

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

LMG employs over 38,000 people in nearly 900 offices throughout the world. For a full description of the Company's business operations, products and distribution channels please visit the Liberty Mutual's Investor Relations web site at www.libertymutual.com/investors.

Forward-Looking Statements

This press release contains forward-looking statements concerning LMG's future financial and business performance. These statements represent LMG's beliefs concerning future operations, strategies, financial results or other developments, and contain words such as "may," "expects," "should," "believes," "estimates," or similar expressions. Because these forward-looking statements are based on assumptions that are subject to significant business, economic and competitive uncertainties, many of which are beyond LMG's control or are subject to change, actual results could be materially different. In particular, the sufficiency of LMG's reserves for asbestos, environmental and toxic tort claims, ("A&E"), as well as its

results of operations, financial condition and liquidity, to the extent impacted by the sufficiency of the A&E reserves, are subject to a number of potential adverse developments, including adverse developments involving A&E claims and the related outcome of litigation, the willingness of parties to settle disputes, the interpretation of aggregate coverage limits, LMG's ability to recover reinsurance for A&E and other claims, the legal, economic, regulatory, and legislative environments, and their impact on the future development of A&E claims, and the impact of bankruptcies of various asbestos producers and related businesses. Other factors that could cause actual results to differ include: LMG's inability to obtain price increases due to competition or otherwise; the performance of LMG's investment portfolios, weakening U.S. and global economic conditions; insufficiency of loss reserves; the occurrence of natural or man-made catastrophic events exceeding LMG's expectations; adverse changes in loss cost trends, adverse developments in the cost, availability and/or ability to collect reinsurance; the ability of LMG's subsidiaries to pay dividends to LMG; adverse results or other consequences from legal proceedings or regulatory investigations or reforms, including governmental actions regarding the compensation of brokers and agents and the sale of nontraditional products and related disclosures; unusual loss activity resulting from adverse weather conditions, including storms, hurricanes, hail, snowfall and winter conditions; the tax impact of the repatriation of foreign earnings; larger than expected assessments for guaranty funds and involuntary market pools; a downgrade in LMG's insurance subsidiaries' ratings; restrictions on LMG's ability to use credit scoring in the pricing and underwriting of personal lines policies; and amendments and changes to the risk-based capital requirements. LMG's forward-looking statements speak only as of the date of this release or as of the date they are made and should be regarded solely as LMG's current estimates and beliefs. LMG undertakes no obligation to update these forward-looking statements. For a further discussion of these and other risks and uncertainties, see LMG's web site at www.libertymutual.com/investors.