

Liberty Mutual Group Reports Third Quarter 2004 Results

BOSTON, Mass., November 12, 2004 – Liberty Mutual Group (“LMG”) today reported a net loss of \$11 million and net income of \$680 million for the three and nine months ended September 30, 2004, respectively. These results represent a decrease of \$216 million and an increase of \$264 million over the same periods in 2003.

Third Quarter Highlights:

- Revenues for the three months ended September 30, 2004 were \$4.882 billion, a \$509 million or 11.6% increase over the same period in 2003.
- Net written premium for the three months ended September 30, 2004 was \$4.223 billion, a \$638 million or 17.8% increase over the same period in 2003.
- After-tax catastrophe losses for the three months ended September 30, 2004 were \$387 million, a \$330 million increase over the same period in 2003.
- Cash flow from operations for the three months ended September 30, 2004 was \$963 million, a \$322 million or 50.2% increase over the same period in 2003.
- The combined ratio before catastrophes and net incurred attributable to prior years for the three months ended September 30, 2004 was 93.2%, a 3.0 percentage point reduction from the same period in 2003. Including the impact of catastrophes and net incurred attributable to prior years, the combined ratio was 111.5%, a 6.6 percentage point increase over the same period in 2003.

Year-to-Date Highlights:

- Revenues for the nine months ended September 30, 2004 were \$14.367 billion, a \$2.243 billion or 18.5% increase over the same period in 2003.
- Net written premium for the nine months ended September 30, 2004 was \$13.212 billion, a \$2.270 billion or 20.7% increase over the same period in 2003.
- After-tax catastrophe losses for the nine months ended September 30, 2004 were \$443 million, a \$314 million increase over the same period in 2003.
- Cash flow from operations for the nine months ended September 30, 2004 was \$2.516 billion, a \$577 million or 29.8% increase over the same period in 2003.
- The combined ratio before catastrophes and net incurred attributable to prior years for the nine months ended September 30, 2004 was 96.1%, a 2.5 percentage point improvement over the same period in 2003. Including the impact of catastrophes and net incurred attributable to prior years, the combined ratio was 104.5%, a 0.8 percentage point improvement over the same period in 2003.

Selected Statistics:

(\$ in Millions)	September 30, 2004	December 31, 2003	Change
Total investments	\$38,130	\$35,549	\$2,581
Total assets	71,290	64,422	6,868
Total long term debt	2,090	1,668	422
Policyholders' equity	7,986	7,381	605
Debt to capitalization including AOCI	22.2%	19.4%	2.8 pts
Debt to capitalization excluding AOCI	24.9%	22.3%	2.6 pts

Consolidated Results of Operations for the Three and Nine Months Ended September 30, 2004 and 2003:

\$ in Millions	Three Months Ended September 30,			Nine Months Ended September 30,		
	2004	2003	Change	2004	2003	Change
Revenues	\$4,882	\$4,373	11.6%	\$14,367	\$12,124	18.5%
PTOI before catastrophes, incurred attributable to prior years, and allowance for uncollectible reinsurance on asbestos	\$639	\$426	50.0%	\$1,492	\$943	58.2%
Allowance for uncollectible reinsurance on asbestos	-	(158)	NM	-	(158)	NM
PTOI before catastrophes and incurred attributable to prior years	639	268	138.4	1,492	785	90.1
Catastrophes ^{1,2} :						
- Four hurricanes 2004	(563)	-	NM	(553)	-	NM
- September 11, 2001	-	2	NM	-	2	NM
- All other	(32)	(90)	(64.4)	(128)	(201)	(36.3)
Net incurred attributable to prior years:						
- Asbestos	-	(104)	NM	(4)	(173)	(97.7)
- All other ³	(103)	(83)	24.1	(237)	(224)	5.8
Discount accretion ⁴	(24)	(17)	41.2	(72)	(48)	50.0
Pre-tax operating (loss) income	(83)	(24)	NM	498	141	NM
Realized investment gains, net	75	212	(64.6)	169	286	(40.9)
Federal and foreign income tax benefit (expense)	-	13	NM	-	(25)	NM
Discontinued operations, net of tax	(3)	4	NM	13	14	(7.1)
Net (loss) income	(\$11)	\$205	NM	\$680	\$416	63.5%

¹ The Company does not typically identify catastrophe losses from assumed reinsurance lines (assumed voluntary reinsurance and reinsurance assumed through Lloyd's Syndicates 282 & 190) in the tables above given the expected volatility associated with property-reinsurance coverage. However, given the significant impact that the four hurricanes (Hurricanes Charley, Frances, Ivan, and Jeanne) and the events of September 11, 2001 had on the Company's results, these losses have been separately identified in the tables above. The four hurricanes' losses in the third quarter are reported net of the \$62 million of exposure based reserves recorded in the first two quarters of 2004 and net of the Company's reasonable assumption of expected catastrophe activity (defined as "net catastrophe reinsurance premium earned"). Similarly, the four hurricanes' losses for the nine months ended September 30, 2004 include amounts in excess of the Company's reasonable assumption of expected property catastrophe losses. Catastrophe losses also include reinstatement premium.

² Assumed catastrophe losses related to the four hurricanes are reported net of net catastrophe reinsurance premium earned of \$92 million and \$164 million for the three and nine months ended September 30, 2004, respectively.

³ Net of earned premium attributable to prior years of (\$3) million and \$55 million for the three and nine months ended September 30, 2004, respectively; \$35 million and \$129 million for the comparable periods of 2003.

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

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

Revenues for the three and nine months ended September 30, 2004 were \$4.882 billion and \$14.367 billion, respectively, representing a \$509 million and \$2.243 billion increase over the same periods in 2003. The major components of revenues include net premium earned, net investment income, net realized investment gains/losses, and fee and other revenues.

Net premium earned for the three and nine months ended September 30, 2004 was \$4.107 billion and \$12.143 billion, respectively, representing a \$520 million and \$2.005 billion increase over the same periods in 2003. The increase in the quarter and year-to-date reflects acquisition activity, net of dispositions, of \$361 million and \$1.062 billion, respectively. The balance of the increase in both periods reflects new business growth, rate increases and a general improvement in retention levels on renewal business across many of the Company's major product lines.

Net investment income for the three and nine months ended September 30, 2004 was \$552 million and \$1.574 billion, respectively, representing a \$116 million and \$286 million increase over the same periods in 2003. Income from limited partnerships increased \$81 million and \$151 million in the quarter and year-to-date, respectively. The balance of the increase is due an increase in average invested assets resulting from acquisition activity and improved cash flow from operations, offset by lower investment yields.

Net realized investment gains for the three months and nine months ended September 30, 2004 were \$75 million and \$169 million, respectively, representing a \$137 million and \$117 million decrease over the same periods in 2003. Included in the third quarter 2003 amounts were \$218 million of gains primarily related to a restructuring of the fixed maturity portfolio. The Company realized \$68 million and \$169 million of gains from the sale of fixed maturities and equities in the quarter and year-to-date, respectively, compared to \$213 million and \$286 million in the same periods a year ago.

Fee and other revenues for the three and nine months ended September 30, 2004 were \$148 million and \$481 million, respectively, representing a \$10 million and \$69 million increase over the same periods in 2003. The increase in both periods was primarily attributable to higher fee revenues from the Company's involuntary market servicing carrier operations.

Claims, benefits and expenses for the three and nine months ended September 30, 2004 were \$4.890 billion and \$13.700 billion, respectively, representing a \$705 million and \$2.003 billion increase over the same periods in 2003. The increase in both periods reflects acquisition activity, higher catastrophe losses, and the non-renewal of certain workers' compensation reinsurance treaties in 2003, partially offset by improved underwriting activity and a decrease in incurred losses attributable to prior years¹ primarily related to asbestos.

Acquisition activity, net of dispositions and excluding catastrophe losses related to PruPac², added \$381 million and \$1.074 billion to claims, benefits and expenses in the three and nine months ended September 30, 2004, respectively. Catastrophe losses increased \$599 million and \$646 million, in the quarter and year-to-date, respectively, primarily due to the four hurricanes. Third quarter catastrophe losses are net of a \$62 million reduction in previously booked exposure based reserves for the current accident year related to business written by LIU's reinsurance segment. Another factor increasing claims, benefits and expenses in the quarter and year-to-date was the non-renewal of certain workers' compensation excess of loss reinsurance treaties, subject to runoff provisions, which added \$39 million and \$110 million, respectively. Partially offsetting these increases in the quarter and year-to-date was a decrease in incurred losses attributable to prior years of \$115 million and \$206 million, respectively, primarily due to significantly lower incurred losses attributable to prior years asbestos liabilities in 2004. In the third quarter of 2003, the Company completed a comprehensive ground-up study of its asbestos liabilities, whereby the Company increased its incurred losses attributable to prior years by \$173 million and recorded an allowance for uncollectible reinsurance on unpaid losses of \$158 million. The balance of the year-to-date change primarily reflects business growth, general cost increases, and changes in underwriting profitability.

¹ Incurred losses attributable to prior years is defined as net incurred losses attributable to prior years gross of earned premium attributable to prior years and including discount accretion.

² The Company acquired Prudential Financial Inc.'s U.S. personal lines property and casualty business ("PruPac") in the fourth quarter of 2003.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2004	2003	Change (Points)	2004	2003	Change (Points)
CONSOLIDATED						
Combined ratio before catastrophes and net incurred attributable to prior years						
Claims and claim adjustment expense ratio	67.6%	70.5%	(2.9)	70.1%	71.7%	(1.6)
Underwriting expense ratio	25.0	25.6	(0.6)	25.6	26.5	(0.9)
Dividend ratio	0.6	0.1	0.5	0.4	0.4	-
Subtotal	93.2	96.2	(3.0)	96.1	98.6	(2.5)
Catastrophes ¹ :						
- Four hurricanes 2004	14.2	-	14.2	4.8	-	4.8
- September 11, 2001	-	(0.1)	0.1	-	-	-
- All other	0.8	2.6	(1.8)	1.1	2.1	(1.0)
Net incurred attributable to prior years:						
- Asbestos	-	3.0	(3.0)	-	1.8	(1.8)
- All other	2.7	2.7	-	1.9	2.3	(0.4)
Discount accretion	0.6	0.5	0.1	0.6	0.5	0.1
Total combined ratio²	111.5%	104.9%	6.6	104.5%	105.3%	(0.8)

¹ The Company does not typically identify catastrophe losses from assumed reinsurance lines (assumed voluntary reinsurance and reinsurance assumed through Lloyd's Syndicates 282 & 190) in the tables above given the expected volatility associated with property-reinsurance coverage. However, given the significant impact that the four hurricanes and the events of September 11, 2001 had on the Company's results, these losses have been separately identified in the tables above. The four hurricanes' losses in the third quarter are reported net of the \$62 million of exposure based reserves recorded in the first two quarters of 2004 and net of the Company's reasonable assumption of expected catastrophe activity (defined as "net catastrophe reinsurance premium earned"). Similarly, the four hurricanes' losses for the nine months ended September 30, 2004 include amounts in excess of the Company's reasonable assumption of expected property catastrophe losses. Catastrophe losses also include reinstatement premium.

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, expressed as a percentage, is computed as the sum of the following property and casualty ratios: the ratio of claims and claim adjustment expense to earned premium; the ratio to earned premium of insurance operating costs plus amortization of deferred policy acquisition costs less fee income and less installment charges; and the ratio of policyholder dividends to earned premium. Provisions for uncollectible premium and reinsurance are not included in the combined ratio. Beginning in the second quarter of 2004, results of the Company's Group Market operations have been excluded from the above table and related discussion of the combined ratio. Prior periods have been restated to conform to the current presentation.

The consolidated combined ratio for the three and nine months ended September 30, 2004 was 111.5% and 104.5%, respectively, representing a 6.6 percentage point increase and 0.8 percentage point decrease over the same periods in 2003. Aggregate catastrophe losses added 12.5 and 3.8 percentage points to the quarter and year-to-date, respectively, compared to the same periods in 2003. Partially offsetting these increases in the quarter and year-to-date was a 3.0 and 2.2 percentage point decrease in net incurred losses attributable to prior years, respectively. The decrease in both periods primarily reflects significantly lower incurred losses attributable to prior years for asbestos liabilities in 2004. The Company completed its comprehensive ground-up study of asbestos liabilities in the third quarter of 2003. In addition, the expense ratio in both periods was favorably impacted by higher premium volume and an increase in revenues related to the Company's involuntary market servicing carrier operations. The balance of the improvement in the claims and claims adjustment expense ratio reflects the favorable impact of underwriting and pricing actions taken in both periods.

For the three and nine months ended September 30, 2004, the Company reported a pre-tax operating loss of \$83 million and PTOI of \$498 million, respectively. These results represent a decline of \$59 million and an increase of \$357 million over the same periods in 2003. The Company recognized no Federal or foreign income tax expense during the first nine months of 2004 as it continues to reduce its deferred tax asset valuation allowance.

For the three and nine months ended September 30, 2004, the Company reported a net loss of \$11 million and net income of \$680 million, respectively. These results represent a decline of \$216 million and an increase of \$264 million over the same periods in 2003. Results from discontinued operations primarily reflect the Company's Canadian personal lines business, which was sold to Meloche Monnex Inc., a member of TD Bank Financial Group ("Meloche Monnex"), on April 1, 2004.

Financial Information: Liberty Mutual Group's third quarter 2004 financial statements, financial supplement, and management's discussion and analysis are located on the Company's Investor Relations web site at www.libertymutual.com/investors.

Conference Call Information: At 3:00 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. A replay will be available until November 19, 2004, at 877-519-4471 using the reservation number 5198927.

About Liberty Mutual Holding Company Inc. and its affiliates

Boston-based Liberty Mutual Holding Company Inc. ("LMG") is a leading global insurer and sixth largest property and casualty insurer in the U.S. whose largest line of business is personal auto based on 2003 direct written premium. As of December 31, 2003, LMG had \$64.4 billion in consolidated assets and \$16.6 billion in annual consolidated revenue and ranked 116th on the Fortune 500 list of largest corporations in the United States for 2003.

In 2001 and 2002 LMG reorganized into a mutual holding company structure. The three principal mutual companies of the group, Liberty Mutual Insurance Company, Liberty Mutual Fire Insurance Company and Employers Insurance Company of Wausau, each became separate stock insurance companies under the indirect ownership of Liberty Mutual Holding Company Inc. This structure provides LMG with better capital market access and greater strategic flexibility to pursue acquisitions and alliances, while aligning its legal structure with its operating structure and preserving mutuality.

LMG offers a wide range of insurance products and services, including personal automobile, homeowners, workers' compensation, commercial multiple peril, commercial automobile, general liability, global specialty, group disability, assumed reinsurance, fire and surety.

LMG employs nearly 38,000 people in nearly 900 offices throughout the world.

The Company has five reporting segments: Commercial Markets; Personal Market; Regional Agency Markets (RAM); International; and Corporate and Other (which includes Individual Life Products). For a full description of the Company's business operations, products and distribution channels please visit the Company's investor relations web site at www.libertymutual.com/investors.

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 related disclosures; 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.