Liberty Mutual Holding Company Inc.

First Quarter 2006

Consolidated Financial Statements

(unaudited)

Liberty Mutual Holding Company Inc.

Consolidated Statements of Income

(dollars in millions)

(Unaudited)

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
Revenues		
Premiums earned	$ 4,666	$ 4,205
Net investment income	560	555
Fee and other revenues	197	190
Net realized investment gains	25	21
Total revenues	5,448	4,971
Claims, Benefits and Expenses		
Benefits, claims and claim adjustment expenses	3,497	3,090
Insurance operating costs and expenses	1,455	1,390
Other expenses	92	86
Total claims, benefits and expenses	5,044	4,566
Income from continuing operations before income tax expense	404	405
Federal and foreign income tax expense	112	-
Income from continuing operations before discontinued operations	292	405
Discontinued operations, net of tax	-	(9)
Net income	$ 292	$ 396

See accompanying notes to the unaudited consolidated financial statements.

Liberty Mutual Holding Company Inc.

Consolidated Balance Sheets

(dollars in millions)

(Unaudited)

	March 31, 2006	December 31, 2005
Assets:		
Investments		
Fixed maturities, available for sale, at fair value (amortized cost of $38,178 and $36,962)	$ 37,889	$ 37,391
Equity securities, available for sale, at fair value (cost of $1,302 and $1,154)	2,137	1,908
Trading securities, at fair value (cost of $13 and $13)	21	20
Other investments	1,341	1,124
Short-term investments	1,458	1,430
Total investments	42,846	41,873
Cash and cash equivalents	2,386	3,155
Premium and other receivables (net of allowance of $135 and $131)	6,568	5,976
Reinsurance recoverables (net of allowance of $329 and $324)	16,499	16,302
Deferred income taxes (net of valuation allowance of $104 and $99)	1,839	1,627
Deferred policy acquisition costs	1,592	1,476
Goodwill and intangible assets	818	810
Prepaid reinsurance premiums	1,554	1,224
Property, plant and equipment, net	1,613	1,109
Other assets	2,857	2,702
Separate account assets	2,605	2,570
Total assets	$ 81,177	$ 78,824
Liabilities:		
Unpaid claims and claim adjustment expense and future policy benefits:		
Property and casualty	$ 38,146	$ 38,045
Life	4,891	4,751
Other policyholder funds and benefits payable	2,529	2,491
Unearned premiums	9,438	8,454
Funds held under reinsurance treaties	1,833	1,826
Short-term debt	185	145
Long-term debt	2,556	2,555
Other liabilities	10,202	9,129
Separate account liabilities	2,605	2,570
Total liabilities	72,385	69,966
Policyholders' equity:		
Unassigned equity	8,758	8,466
Accumulated other comprehensive income	34	392
Total policyholders' equity	8,792	8,858
Total liabilities and policyholders' equity	$ 81,177	$ 78,824

See accompanying notes to the unaudited consolidated financial statements.

Liberty Mutual Holding Company Inc.

Consolidated Statements of Changes in Policyholders' Equity

(dollars in millions)

(Unaudited)

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
Balance at beginning of the period	$ 8,858	$ 8,697
Net income	292	396
Other comprehensive (loss) income, net of taxes:		
Unrealized losses on securities	(375)	(362)
Foreign currency translation and other adjustments	17	(12)
Total other comprehensive loss, net of taxes	(358)	(374)
Total comprehensive (loss) income	(66)	22
Balance at end of the period	$ 8,792	$ 8,719

See accompanying notes to the unaudited consolidated financial statements

Liberty Mutual Holding Company Inc.

Consolidated Statements of Cash Flows

(dollars in millions)

(Unaudited)

	Three Months Ended Ended March 31, 2006	2005
Cash flows from operating activities:		
Income from continuing operations before discontinued operations	$ 292	$ 405
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	53	39
Realized investment gains	(25)	(21)
Undistributed private equity investment gains	(44)	(51)
Premium, other receivables, and reinsurance recoverables	(782)	(552)
Deferred policy acquisition costs	(116)	(88)
Liabilities for insurance reserves	1,251	878
Taxes payable, net of deferred	68	(52)
Other, net	(199)	300
Total adjustments	206	453
Net cash provided by operating activities	498	858
Cash flows from investing activities:		
Purchases of investments	(5,378)	(6,358)
Sales and maturities of investments	3,907	4,696
Property and equipment purchased, net	(583)	(83)
Other investing activities	433	268
Net cash from acquisitions and dispositions	-	30
Net cash used in investing activities	(1,621)	(1,447)
Cash flows from financing activities:		
Net activity in policyholder accounts	12	2
Debt financing, net	41	265
Net security lending activity and other financing activities	301	61
Net cash provided by financing activities	354	328
Net cash provided by discontinued operations	-	-
Net decrease in cash and cash equivalents	(769)	(261)
Cash and cash equivalents, beginning of period	3,155	2,590
Cash and cash equivalents, end of period	$ 2,386	$ 2,329

See accompanying notes to the unaudited consolidated financial statements

LIBERTY MUTUAL HOLDING COMPANY INC.

March 31, 2006

Notes to Consolidated Financial Statements

(dollars in millions)

(Unaudited)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

The Company will adopt FASB Statement No. 123(R), *Share-Based Payments,* and ("FAS 123(R)") at the time of the Company's next grant issuance which is expected to occur in the second quarter of 2006. The Company is currently evaluating the effects of the elections available to it under the new standard.

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

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

	March 31, 2006	**December 31, 2005**
Unrealized gains on securities	$281	$656
Foreign currency translation adjustments	85	68
Minimum pension liability	(332)	(332)
Accumulated other comprehensive income	$34	$392

(2) DISCONTINUED OPERATIONS

Discontinued Operations

In December 2004, the Company's management approved a plan to sell the pension externalization business of Seguros Genesis S.A operations. The Company completed the disposition in December 2005. The operations were a net loss of $9 for the three months ended March 31, 2005.

(3) ACQUISITIONS AND GOODWILL

(dollars in millions)

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

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

(4) REINSURANCE

The Company is party to retroactive reinsurance arrangements where a significant portion of the consideration was retained on a "funds held" basis and interest is credited on the balance at a weighted average rate of approximately 7.7% annually. These contracts resulted in deferred gains (including experience related profit accruals of $195 million as of March 31, 2006, and December 31, 2005) that are amortized into income using the effective interest method over the estimated settlement periods. As of March 31, 2006, and December 31, 2005, deferred gains related to these reinsurance arrangements were $865 and $878, respectively, and are included in other liabilities within the consolidated balance sheets. Interest credited to the funds held balances was $25 and $24 for the three months ended March 31, 2006, and 2005, respectively. Amortization of the deferred gain was $16 and $12 for the three months ended March 31, 2006, and 2005, respectively. Reinsurance recoverables related to these transactions including experience related profit accruals were $2,203 and $2,211 as of March 31, 2006, and December 31, 2005, respectively.

(5) DEBT OUTSTANDING

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

Short-term debt:

	2006	2005
Commercial paper	$145	$100
Revolving credit facilities	40	35
Current maturities of long-term debt	-	10
Total short-term debt	$185	$145

Long-term debt:

	2006	2005
8.20%, Surplus Notes, due 2007	$121	$121
6.75%, Notes, due 2008	15	15
5.00% Notes, due 2008	4	4
8.00% Notes, due 2013	260	260
5.75% Notes, due 2014	500	500
8.50%, Surplus Notes, due 2025	150	150
7.87%, Surplus Notes, due 2026	250	250
7.63%, Notes, due 2028	3	3
7.00%, Notes due 2034	250	250
6.50% Notes due 2035	500	500
7.70%, Surplus Notes, due 2097	500	500
7.10% - 7.86%, Medium Term Notes, with various maturities	27	27
	2,580	2,580
Unamortized discount	(24)	(25)
Total long-term debt excluding current maturities	$2,556	$ 2,555

Short-term Debt

(dollars in millions)

The Company issues commercial paper to meet short-term operating needs. The total facility was $600 as of March 31, 2006, and December 31, 2005, and is supported by a $750 line of credit facility. Commercial paper issued and outstanding as of March 31, 2006, and December 31, 2005, was $145 and $100, respectively. Interest rates ranged from 4.43% to 4.90% and 2.31% to 2.87% for the three months ended March 31, 2006, and 2005, respectively.

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

(6) BENEFIT PLANS

The net benefit costs for the three months ended March 31, 2006, and 2005, included the following components:

Three months ended March 31,	**Pension Benefits**		**Supplemental* Pension Benefits**		**Postretirement Benefits**	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
Components of net periodic benefit costs:						
Service cost	$37	$32	$3	$2	$4	$6
Interest cost	45	43	3	3	7	9
Expected return on plan assets	(48)	(49)	-	-	-	-
(Gain)/loss recognized due to settlement	-	-	-	-	-	-
Amortization of unrecognized:						
Net (gain)/loss	14	4	2	2	-	1
Prior service cost	1	1	-	1	(1)	(1)
Net transition (assets)/obligations	(2)	(1)	-	-	2	2
Net periodic benefit costs	$47	$30	$8	$8	$12	$17

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

(7) COMMITMENTS AND CONTINGENT LIABILITIES

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

The Company has been in various insurance coverage disputes with Armstrong World Industries ("Armstrong") for over twenty years relating to asbestos liabilities and insurance covering the period 1973 to 1981. The Company prevailed in a favorable arbitration ruling before an appellate panel regarding Armstrong's insurance coverage in July 2003. Armstrong filed a Chapter 11 Bankruptcy petition in the United States Bankruptcy Court for the District of Delaware in December 2000 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. In Februrary 2004 Armstrong filed, in the same Pennsylvania District Court, a Motion to Vacate the appellate arbitration award that was favorable to the Company. In turn, the Company filed a Motion to Confirm the arbitration award. Both motions remain pending at the present time. Management believes that the ultimate liability, if any, to Armstrong will not be resolved for at least one year and very likely may not be known for several years. In the opinion of management, the outcome of these pending matters is difficult to predict and in the event of an adverse outcome, could have a material adverse effect on the Company's results of operations, financial condition and liquidity.

As of March 31, 2006, the Company had unfunded capital commitments to private equity investments of $1,113.

As of March 31, 2006, the Company had commitments to purchase various mortgage-backed securities and corporate and municipal securities settling subsequent to March 31, 2006, at a cost of $214 with a fair value of $213 and at a cost of $187 with a fair value of $185, respectively. They are included as fixed maturities in the consolidated balance sheets.