Liberty Mutual Group Reports First Quarter 2006 Results

BOSTON, Mass., May 2, 2006 – Liberty Mutual Group ("LMG" or the "Company") today reported net income of $292 million for the three months ended March 31, 2006, a decrease of $104 million or 26.3% from the same period in 2005. Results in the quarter include a $112 million increase in Federal and foreign income taxes over the same period in 2005 as a result of the amortization of the domestic valuation allowance, which offset the federal and foreign income tax expense in the prior period.

"I am pleased with our financial results in the quarter," said Edmund F. Kelly, Liberty Mutual Chairman, President and CEO. "Revenue growth reflects higher retention of existing accounts and very satisfactory new business growth. Our core underwriting results before catastrophes and prior year reserve increases improved versus the prior year and reflect our continued disciplined approach to underwriting and balance sheet strength. Moody's decision to affirm our ratings and to revise our outlook to stable in recognition of these strengths is a positive and welcome development."

First Quarter Highlights

- Revenues for the three months ended March 31, 2006 were $5.448 billion, an increase of $477 million or 9.6% over the same period in 2005.

- Net written premium for the three months ended March 31, 2006 was $5.310 billion, an increase of $653 million or 14.0% over the same period in 2005.

- Pre-tax income for the three months ended March 31, 2006 was $404 million, a decrease of $1 million from the same period in 2005.

- Cash flow from operations for the three months ended March 31, 2006 was $498 million, a decrease of $360 million or 42.0% from the same period in 2005.

- The combined ratio before catastrophes, net incurred losses attributable to prior years and discount accretion for the three months ended March 31, 2006 was 96.1%, a decrease of 0.8 points from the same period in 2005. Including the impact of catastrophes, net incurred losses attributable to prior years and discount accretion, the Company's combined ratio increased 1.0 point over 2005 to 100.1% in 2006.

Financial Condition as of March 31, 2006

- Total assets increased to $81.177 billion as of March 31, 2006, an increase of $2.353 billion or 3.0% over December 31, 2005.

- Policyholders' equity was $8.792 billion as of March 31, 2006, a decrease of $66 million or 0.7% from December 31, 2005.

- After-tax net unrealized gains on fixed maturities and equity securities, as of March 31, 2006 were $355 million, a decrease of $414 million or 53.8% from December 31, 2005.

- Statutory surplus as regards policyholders for the combined operations of Liberty Mutual Insurance Company ("LMIC") and its U.S. affiliates was $10.096 billion, an increase of $227 million or 2.3% over December 31, 2005.

- The consolidated debt-to-capital ratio including accumulated other comprehensive income ("AOCI") as of March 31, 2006 was 23.8%, an increase of 0.4 points over December 31, 2005. Excluding AOCI, the consolidated debt-to-capital ratio was 23.8%, a decrease of 0.4 points from December 31, 2005.

Consolidated Results of Operations for the Three Months Ended March 31, 2006:

	Three Months Ended March 31,		
$ in Millions	**2006**	**2005**	**Change**
Revenues	$5,448	$4,971	9.6%
PTOI before catastrophes, net incurred losses attributable to prior years and discount accretion	$554	$476	16.4%
Catastrophes[1]:			
- 2005 hurricanes	(24)	-	NM
- All other	(75)	(37)	102.7
Net incurred losses attributable to prior years:			
- Asbestos	(1)	-	NM
- All other[2]	(47)	(26)	80.8
Discount accretion[3]	(28)	(29)	(3.4)
Pre-tax operating income	379	384	(1.3)
Realized investment gains, net	25	21	19.0
Federal and foreign income tax expense	(112)	-	NM
Discontinued operations, net of tax	-	(9)	100.0
Net income	$292	$396	(26.3%)

1 Catastrophes include all current and prior year catastrophe losses related to the Company's insurance lines and exclude losses related to the Company's reinsurance assumed lines (assumed voluntary reinsurance and reinsurance assumed through Lloyd's Syndicate 4472) except for losses related to the events of September 11, 2001, the 2004 hurricanes and the 2005 hurricanes. Catastrophe losses include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

2 Net of earned premium attributable to prior years of $16 million and $8 million for the three months ended March 31, 2006 and 2005, respectively. Net of amortization of deferred gains on retroactive reinsurance of $16 million and $12 million for the three months ended March 31, 2006 and 2005, respectively.

3 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 months ended March 31, 2006 are available on the Company's Investor Relations web site at www.libertymutual.com/investors.

Conference Call Information: At 10:00 a.m. EDT tomorrow, 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 7280163. A replay will be available until May 10, 2006 at 877-519-4471 using the reservation number 7280163.

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 102nd on the Fortune 500 list of largest corporations in the United States based on 2005 revenue. As of December 31, 2005, LMG had $78.824 billion in consolidated assets and $21.161 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 but now includes Wausau and Surety) and International. Each business unit operates independently of the others and has dedicated sales, underwriting, claims, actuarial, financial and certain information technology resources. Management believes this structure allows each business unit to execute its business strategy and/or to make acquisitions without impacting or disrupting the operations of the Company's other business units.

LMG employs over 39,000 people in more than 900 offices throughout the world. For a full description of the Company's business operations, products and distribution channels, please visit Liberty Mutual's Investor Relations web site at www.libertymutual.com/investors.

Forward-Looking Statements

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

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