



J.P. Morgan
Fixed Income Conference

March 2004

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Liberty Mutual Group Overview

Liberty Mutual Overview

- 9th largest personal lines writer in the U.S. ⁽¹⁾
- 7th largest commercial lines writer in the U.S. ⁽¹⁾
- Diversified business mix
- \$64.4 B of assets, \$7.4 B of equity ⁽²⁾
- Personal auto largest line of business
- Conversion to Mutual Holding Co. in 2002



Strategic Business Units

Personal Market

Commercial Markets

Regional Agency
Markets (RAM)

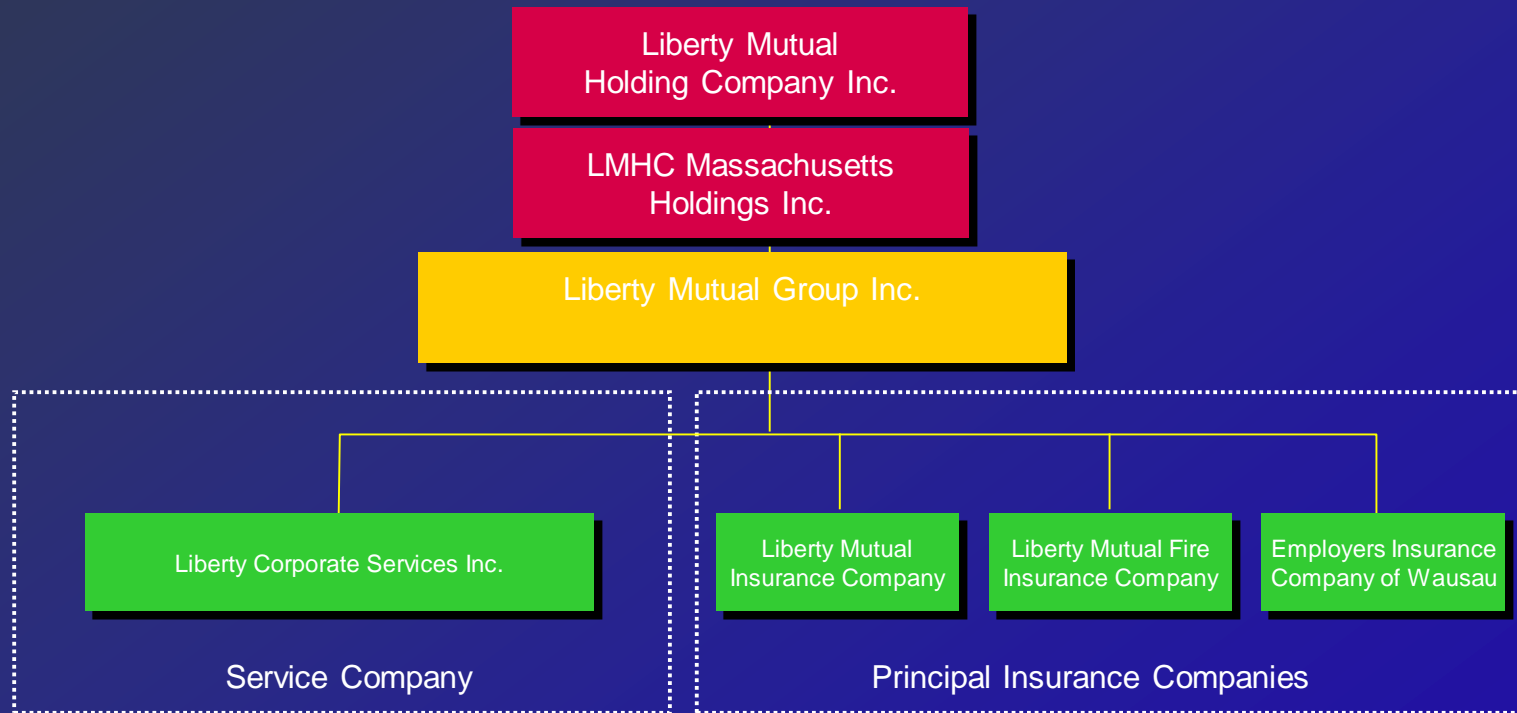
International

(1) Based on 2002 NWP.

(2) As of 12/31/03.

Mutual Holding Company Structure

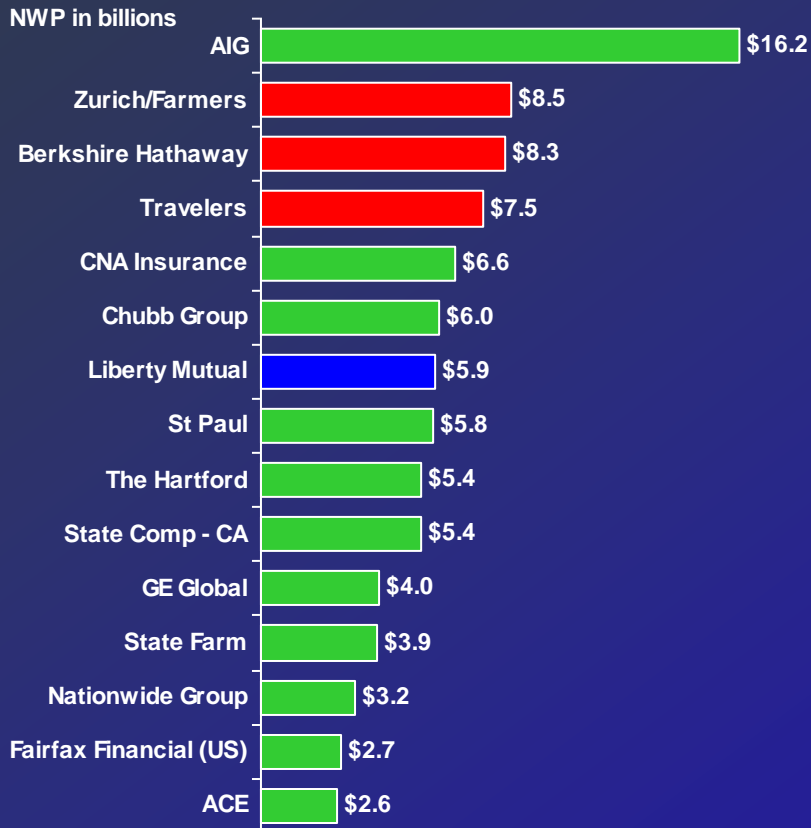
- ◆ Change to mutual holding company structure completed in 2002 to increase financial flexibility
- ◆ Insurance companies and service company have nearly \$800 million of available dividend capacity to service debt



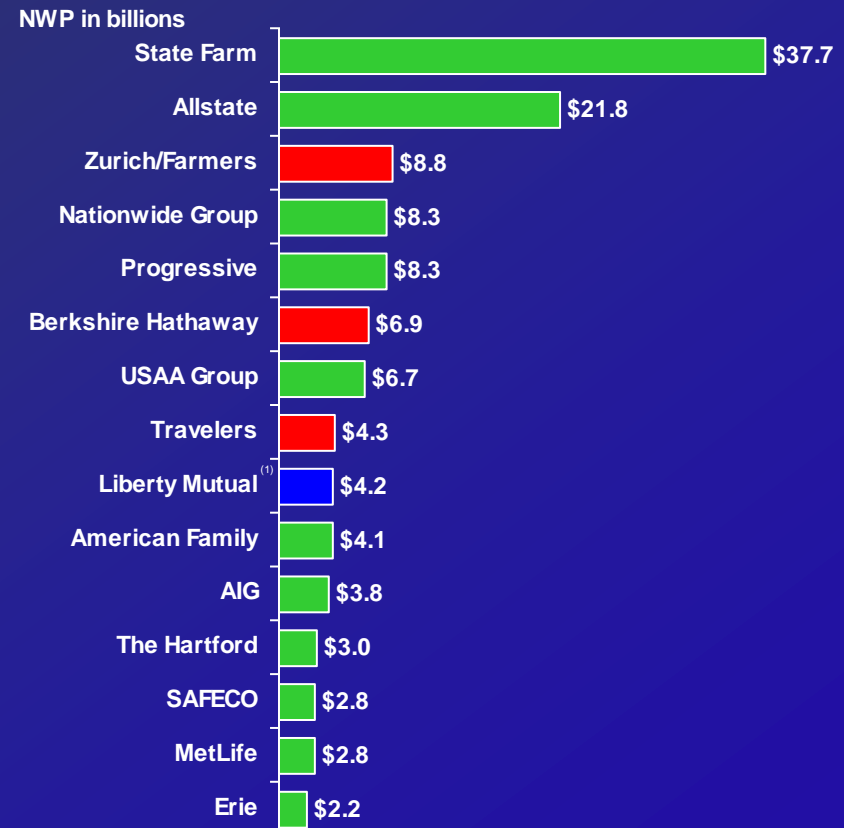
Leading Market Position

One of only 4 companies with top 10 market position in both Personal and Commercial lines

Commercial Lines



Personal Lines

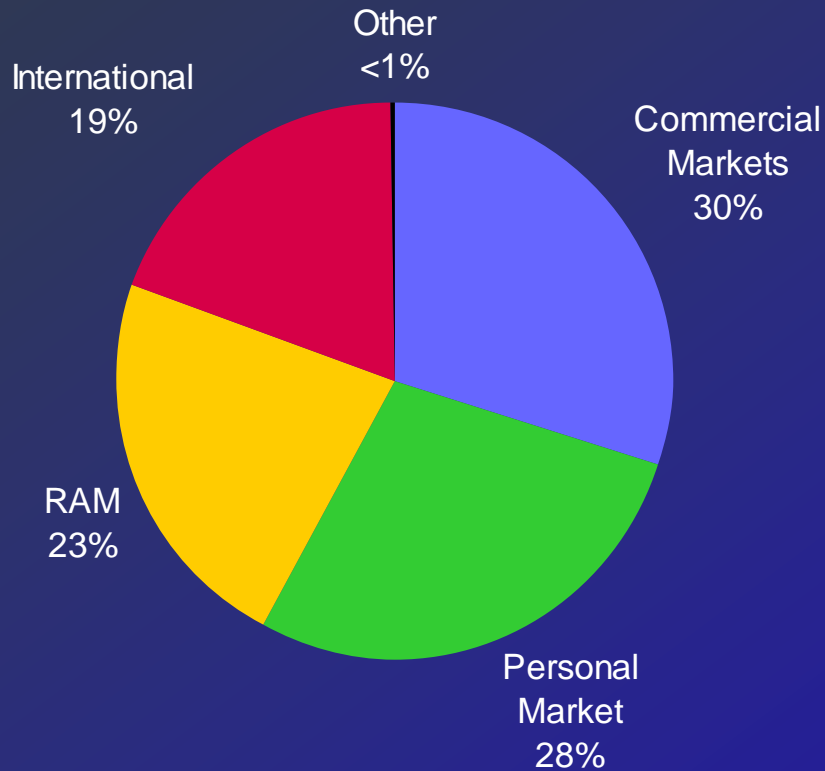


Source: Best's Aggregates & Averages Supplement, 2003 Edition.

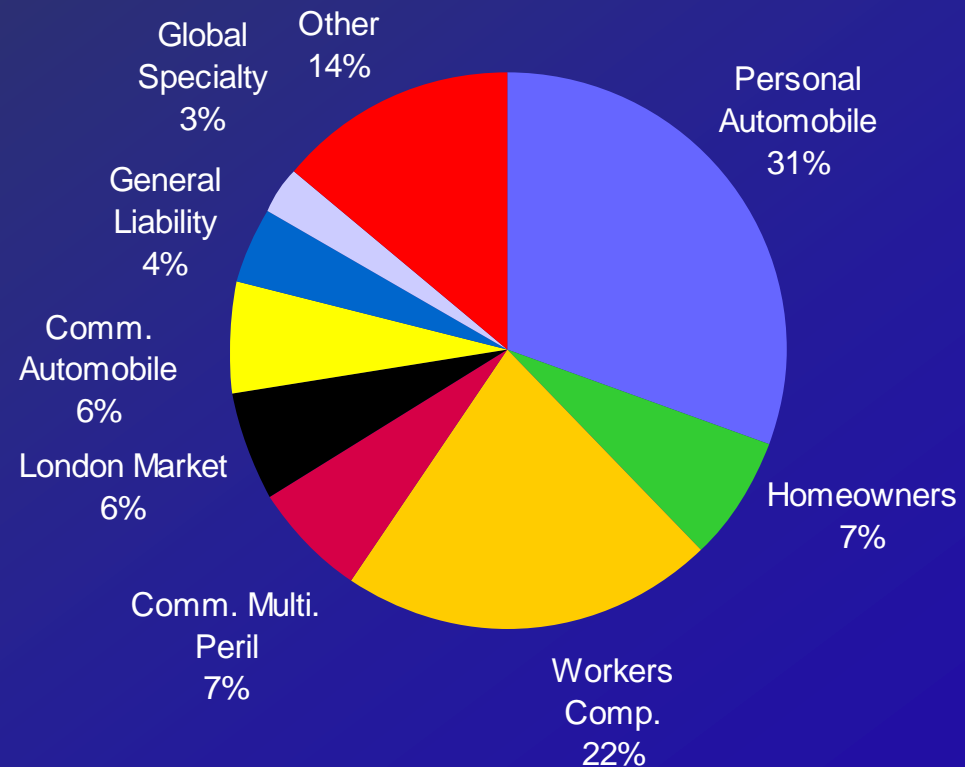
(1) Liberty Mutual does not reflect the acquisition of Prudential's U.S. Property and Casualty business in October 2003.

Diversified Business Mix

Strategic Business Units

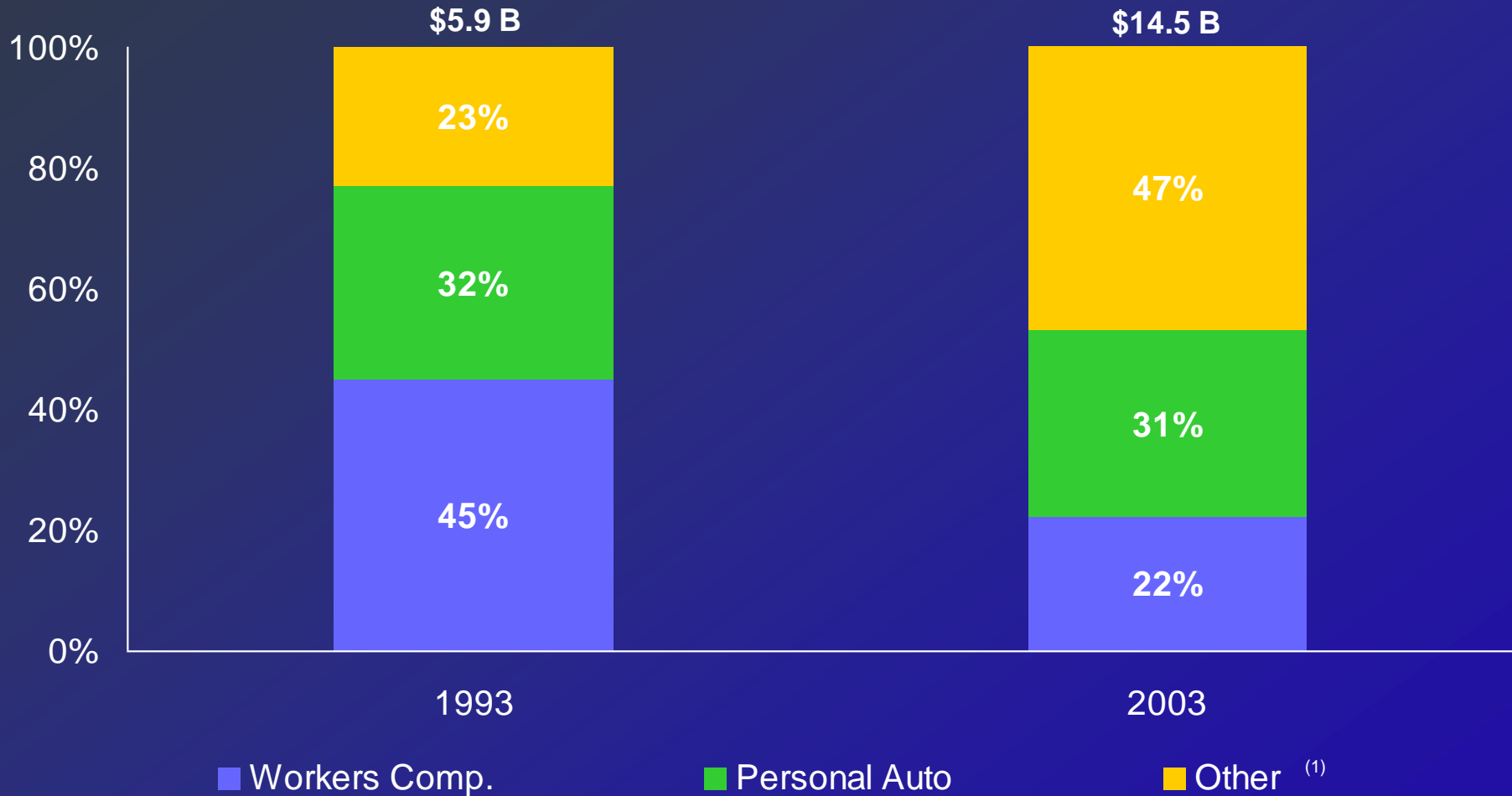


Significant Lines of Business



2003 Net Written Premium = \$14.5 B

Shifting Business Mix – Net Written Premiums



Source: Best's Aggregates & Averages and Offering Memorandum. Based on net written premium.

(1) Note: Other represents all other lines.

Business and Strategy

Strategic Focus

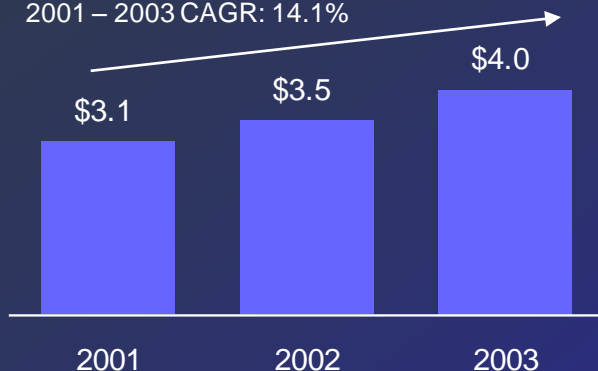
- ◆ Disciplined underwriting strategies and pricing models
- ◆ Leverage scale, capital and technology to provide high quality and high value insurance products and services
- ◆ Diversification of products, channels and geography
- ◆ Enhance financial strength ratings through strong earnings and capital generation
- ◆ Leverage and opportunistically expand diversified and well-established multi-channel distribution capabilities

Personal Market

Growth of NWP

(\$ in billions)

2001 – 2003 CAGR: 14.1%



Recent Strategic Actions

- ◆ Acquired Prudential's P&C business in November 2003
- ◆ Sale of Canadian personal lines business

Breadth of Distribution

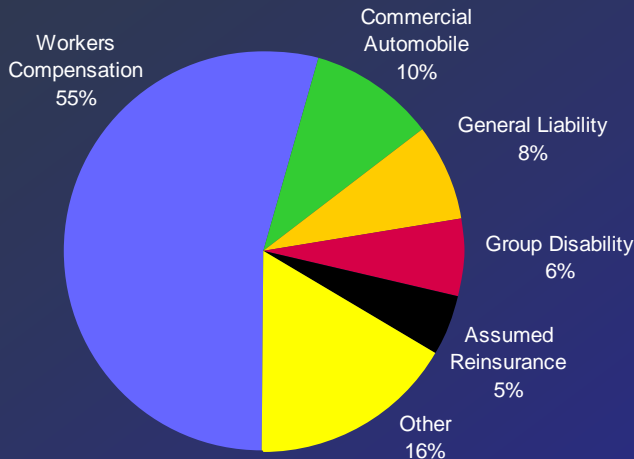
- ◆ Direct sales force of 1,100 agents
- ◆ 8,300 affinity relationships
- ◆ 2,700 Prudential agents
- ◆ Internet sales

Segment Highlights

- ◆ Personal Market is expected to be the largest business unit
- ◆ 9th largest writer of personal lines P&C in the U.S. (1)
- ◆ 77% of NWP is from personal auto
- ◆ Multi-tiered pricing strategy

Commercial Markets

Product Mix



2003 NWP = \$4.4 B

Marketing Groups

Segment	% of NWP	Description
Business Market	29%	Middle Markets (Direct Sales Force)
National Market	28	Large Company, Service Oriented
Wausau Comm. Market	19	Middle Markets (Agency Distributed)
Group Market	8	Group Life and Disability
Specialty Risks Market	7	Commercial Property & Surety
Other Markets	9	Involuntary business, Reinsurance, Service Carrier

Distribution

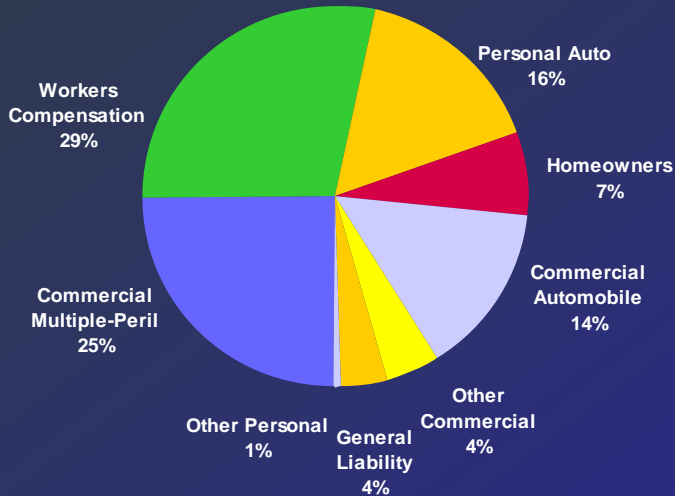
- ◆ Direct sales force
- ◆ Independent agents
- ◆ Large broker channel

Segment Highlights

- ◆ #7 writer of commercial lines in the U.S. ⁽¹⁾
- ◆ A leading writer of workers compensation
- ◆ One of few successful national market providers

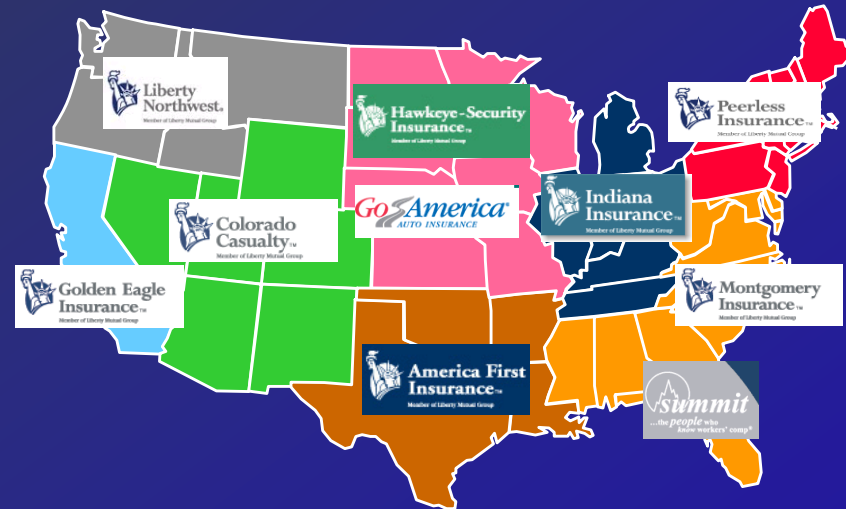
Regional Agency Markets (RAM)

Product Mix



2003 NWP = \$3.3 B

Marketing Groups



Distribution

- ◆ 5,200 independent agents and brokers

Segment Highlights

- ◆ Started operations in 1997
- ◆ Regionally focused with national scale
 - Superior underwriting / business selection
 - National scale reduces overall costs
- ◆ Continued focus on expense reduction
- ◆ OneBeacon renewal rights transaction

International

One of the only U.S. based insurance companies with a global focus

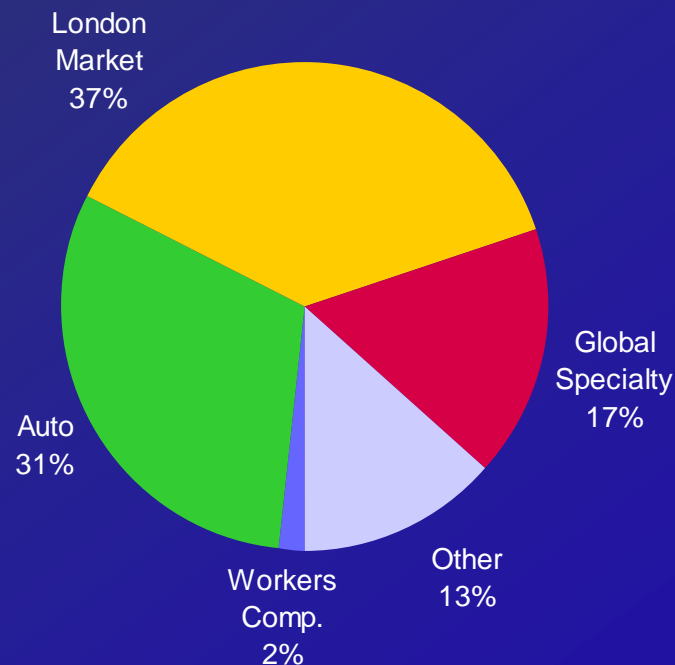
Personal and Small Commercial Businesses (51% of International NWP) ⁽¹⁾

- ◆ Sale of personal lines products to individuals in selected countries
- ◆ Many U.S. competitors have exited international markets creating acquisition / growth opportunities
- ◆ Significant South American presence in Venezuela, Argentina, Colombia and Brazil
- ◆ Operations in Spain and select Asian markets

Liberty International Underwriters (49% of International NWP) ⁽¹⁾

- ◆ Global commercial and specialty P&C operations including Lloyd's syndicates
- ◆ Strong underwriting team globally
- ◆ Risk management through modest net retentions
- ◆ Lines of business include:
 - Property, Casualty, Marine, D&O, E&O, Aviation

Product Mix ⁽²⁾



2003 NWP = \$2.5 B ⁽²⁾

Financial Review

Financial Summary

(\$ in millions)

For the Year Ended December 31,

	2003	2002	2001
Net written premium	\$14,482	\$12,571	\$10,847
Earned premiums	13,956	11,902	10,537
Net investment income	1,762	1,590	1,557
Net realized investment gains	373	274	211
Fees and other revenue	527	524	499
Total revenues	\$16,618	\$14,290	\$12,804
Total claims, benefits and expenses	15,841	13,679	14,459
Pre-tax income	\$777	\$611	(\$1,655)
Fed & foreign income tax expense	-	(81)	(278)
Extraordinary items, net of tax	77	-	-
Discontinued operations, net of tax	(3)	(15)	(13)
Cumulative effect of changes in accounting principle	-	(7)	-
Net income (loss)	\$851	\$508	(\$1,946)
GAAP equity	7,381	6,447	

Strong Capitalization

(\$ in millions)

December 31, 2003

	<u>Actual</u>	<u>As Adjusted</u> ¹
5.75% Senior Notes, due 2014	\$ -	\$ 500
7.00% Senior Notes, due 2034	-	250
Prudential Notes	420	290
8.20% Surplus Notes, due 2007	250	120
Other Surplus Notes and Debt Obligations	1,006	1,006
Unamortized Discount	(8)	(8)
Total Long Term Debt	\$1,668	\$2,158
Unassigned Equity	6,194	6,194
Accumulated Other Comprehensive Income	1,187	1,187
Total Equity	\$7,381	\$7,381
Total Capitalization	\$9,049	\$9,539

Debt / Cap. (incl. AOCI)	18.4%	22.6%
Debt / Cap. (excl. AOCI)	21.2	25.8

¹ Includes \$500M of 5.75% senior notes due 2014 and \$250M of 7.00% senior notes due 2034 issued March 23, 2004. Excludes \$130M of 8.20% surplus notes due 2007 which have been tender for in a transaction expected to close April 8, 2004 and \$130M of Prudential notes expected to be repurchased April 16, 2004.

Financial Strength

A.M. Best

S&P

Moody's

Financial Strength Rating

A

A

A2

Rating Rank

3rd

6th

6th

Outlook

Negative

Stable

Negative

Surplus Notes Rating

bbb+

BBB+

Baa2

Senior Debt Rating

bbb

BBB

Baa3

Insurance Company Dividend Capacity

\$692 million of dividend capacity in 2004

Principal Insurance Companies

Liberty Mutual
Insurance Company

Statutory capital: \$6.1B
RBC Ratio: 360%
Dividend Capacity: \$612MM

Liberty Mutual Fire
Insurance Company

Statutory capital: \$551MM
RBC Ratio: 425%
Dividend Capacity: \$73MM

Employers Insurance
Company of Wausau

Statutory capital: \$751MM
RBC Ratio: 303%
Dividend Capacity: \$7MM

Significant Cash Flow Generation Capabilities

◆ Substantial cash flow to service debt

(\$ in millions)

Sources (Dividend Capacity)		Uses	
Liberty Corporate Services	\$100	Interest due on Prudential Notes ⁽¹⁾	\$22
Insurance Companies	<u>692</u>	Inter-company interest expense	6
Total Dividend Capacity	\$792	Senior notes interest ⁽²⁾	<u>46</u>
		Pro Forma Interest Expense	\$74

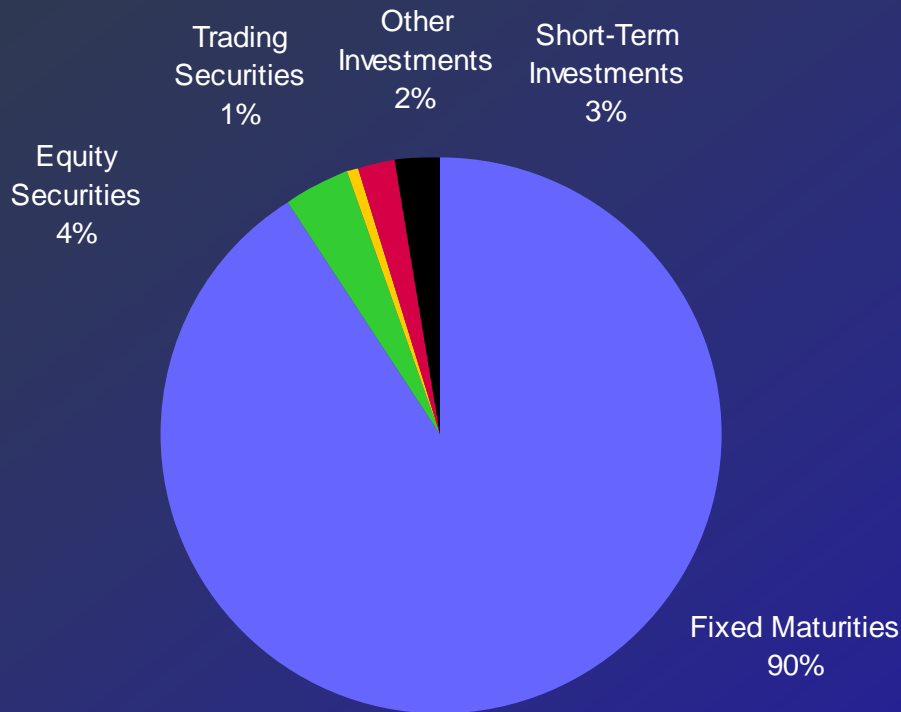
Statutory fixed charge coverage ratio (before notes offering):	21.4x
Statutory fixed charge coverage ratio (after notes offering):	10.7x

¹ Excludes \$130M of Prudential notes expected to be repurchased April 16, 2004.

² Interest with respect to the \$500M of 5.75% senior notes due 2014 and \$250M of 7.00% senior notes due 2034 issued March 23, 2004.

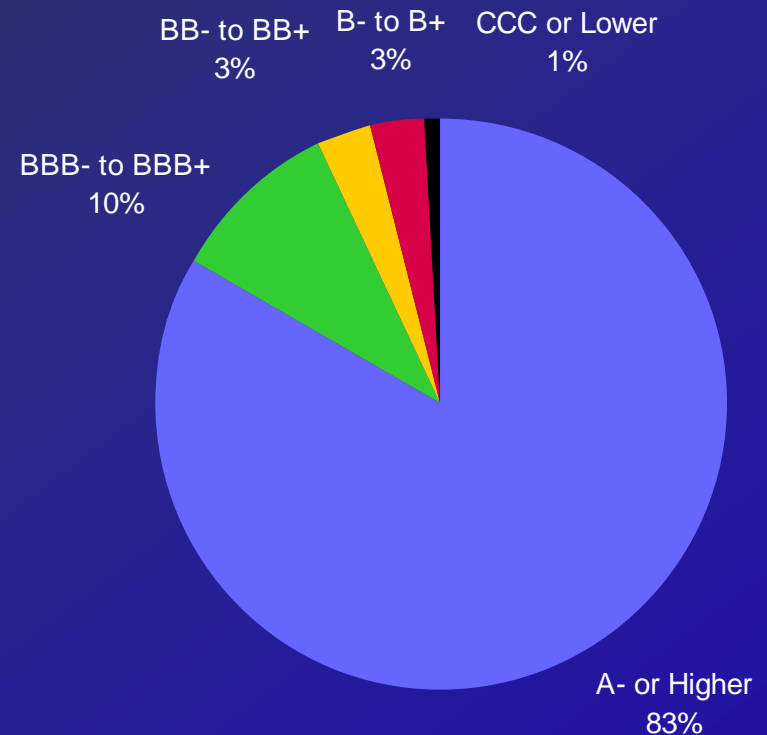
Conservative Investment Portfolio

Invested Assets



Total: \$35.5 B

Fixed Income Securities By Rating



Total: \$32.3 B

Distribution of Reinsurance Recoverables

		Gross Rec.	Collateral	Net. Rec.	% of Total
Rated Entities	AAA	\$1,300	\$610	\$690	8%
	AA+, AA, AA-	3,395	1,199	2,215	24
	A+, A, A-	2,785	113	2,696	29
	BBB+, BBB, BBB-	95	5	90	1
	BB+ or Below	20	10	15	-
	Subtotal	\$7,595	\$1,937	\$5,706	62%
Pools & Assoc.	Stated mandated invol. pools and assoc.	\$2,546	\$2	\$2,545	28%
	Voluntary	396	79	323	4
	Subtotal	\$2,942	\$81	\$2,868	32%
Non-Rated Entities	Captives & fronting companies	\$912	\$1,052	\$35	-
	Other	778	251	554	6%
	Subtotal	\$1,690	\$1,303	\$589	6%
Grand Total		\$12,227	\$3,321	\$9,163	100%

Note: Data as of 12/31/03. Ratings from Standard & Poor's.

Strong Reserve Position

- ◆ Strengthening of both A&E and non-A&E reserves
- ◆ Disciplined quarterly Review Process:
 - Detailed analysis by SBU actuaries
 - Major line analysis by Corporate Actuarial
 - Held reserve position based on input from all parties
- ◆ Schedule P Supplement

Asbestos Ground-Up Study

- ◆ Released results of ground-up study of asbestos-related exposures in October 2003:
 - Independent review by international actuarial consulting firm for methodology and best practices
 - Study reviewed 550 of the Company's U.S. accounts
- ◆ Resulted in net reserve strengthening of \$331 million, including \$158 million provision (55%) for uncollectible reinsurance on unpaid losses
 - Total reserves of \$1.15 billion now held including bad debt reserve
- ◆ Liberty Mutual's differentiating factors as a primary carrier:
 - Aggressive claims management practices
 - Centralized claims handling
 - Risk mitigating policy language
 - Limited umbrella, excess, or reinsurance assumed coverage vs. other commercial carriers
- ◆ Limited Tier I / Tier II exposure
 - Only 3 Tier I / Tier II open cases, 2 of which are structured settlements

Recap of Highlights

- ◆ Diversified personal and commercial lines P&C business supported by multi-channel distribution strategy
- ◆ Strong financial performance, balance sheet and capitalization
- ◆ Significant cash flow from insurance and non-insurance subsidiaries
- ◆ High quality investment portfolio
- ◆ Completion of ground-up asbestos reserve study
- ◆ Experienced management team