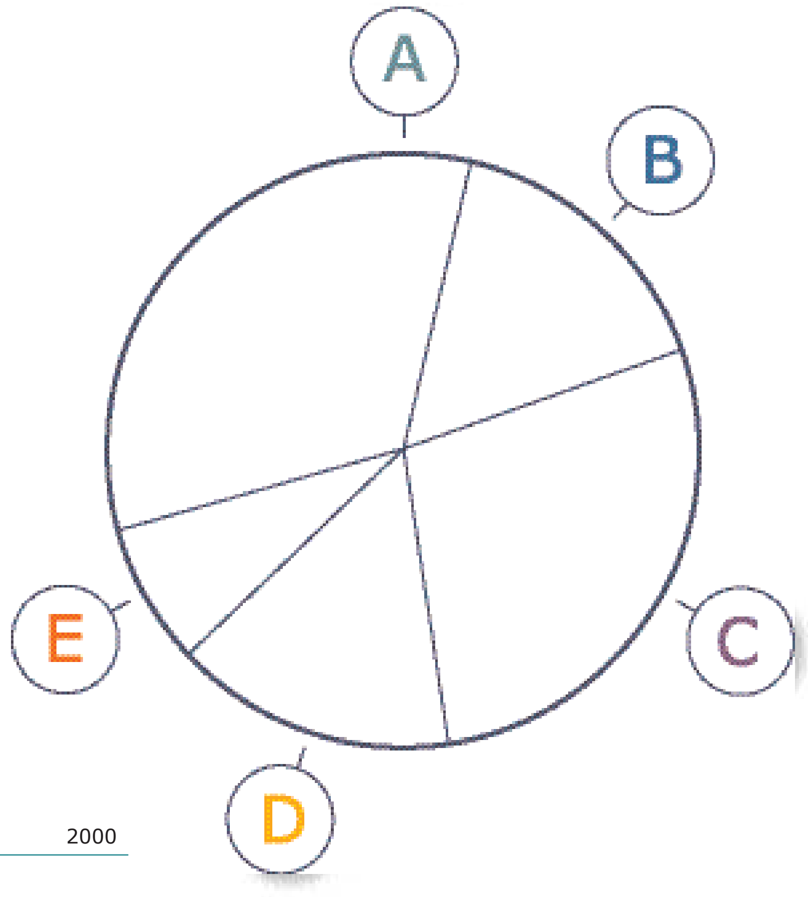
this is what we do:

2001 revenue: by business segment



December 31	2001	2000
(dollars in millions)		
Liberty Mutual Group		
Revenue	**$14,037**	$13,470
Pre-tax operating income	**(1,021)**	298
Pre-tax income	**(484)**	648
Assets	**42,567**	53,826
A: Commercial Marketplace		
Revenue	**$ 4,520**	$ 4,833
Pre-tax operating income	**(21)**	117
Assets	**17,112**	15,027
B: Regional Agency Markets		
Revenue	**$ 2,236**	$ 2,115
Pre-tax operating income	**41**	26
Assets	**4,256**	4,213
C: Personal Marketplace		
Revenue	**$ 3,929**	$ 3,567
Pre-tax operating income	**(13)**	128
Assets	**8,536**	7,893
D: International		
Revenue	**$ 2,145**	$ 1,474
Pre-tax operating income	**(412)**	20
Assets	**5,833**	3,049
E: Other*		
Revenue	**$ 1,207**	$ 1,481
Pre-tax income	**(79)**	357

*Other includes discontinued operations, environmental, net realized capital gains, interest expense and other corporate adjustments.

Liberty Mutual Group results include all significant business units of Liberty Mutual. Each business unit is reported either in accordance with statutory accounting practices or generally accepted accounting principles.

Liberty Mutual: At-A-Glance

Liberty Mutual Group is a diversified international group of insurance companies and one of the largest multi-line property and casualty insurers in North America. Founded in Boston in 1912, the group has more than $42 billion in consolidated assets and $14 billion in consolidated revenue. The company ranks 142nd on the Fortune 500 list of largest corporations in the United States.

Along with being the leading provider of workers compensation insurance, programs and services in the United States for 65 years, Liberty Mutual provides a wide range of products and services, including: general liability, commercial auto and business property, group life and disability, and private passenger auto and homeowners insurance; integrated disability management; individual life insurance and annuities.

The company employs 35,000 people in more than 800 offices throughout the world.

Insurance for Businesses

Overview

Liberty Mutual Group's largest business segment provides sophisticated risk and disability management and risk transfer services under such well-known brand names as Liberty Mutual, Wausau, Helmsman, Peerless and Indiana Insurance.

Major Business Units

National Market
Business Market
Wausau Commercial Market
Specialty Risks Market
Group Market
Regional Agency Markets

Major Operating Subsidiaries and Affiliates

Wausau Insurance Companies
Liberty Northwest Insurance
Golden Eagle Insurance
Peerless Insurance
Indiana Insurance
Montgomery Mutual Insurance

Products and Services

Workers Compensation Insurance
Property, Auto and Liability Insurance
Contract and Commercial Surety
Specialty Insurance Products
Claims, Managed Care and Loss Control Services
Integrated Disability Management
Group Life Insurance

Distribution

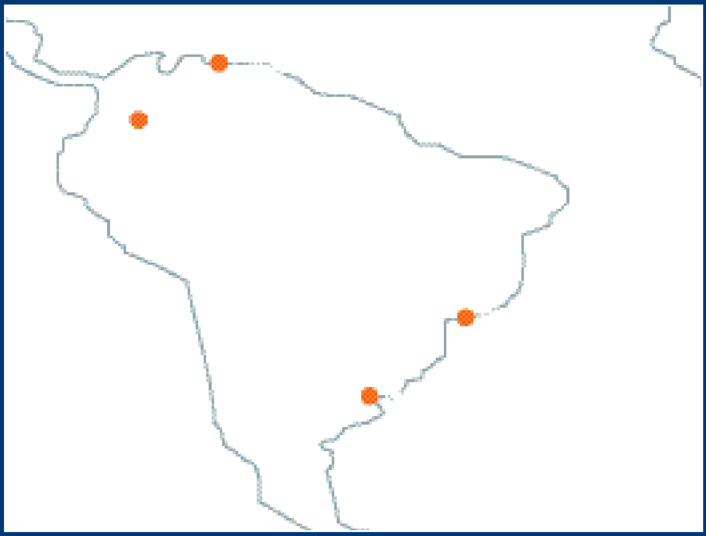
- Direct Sales Force
- Independent Agents
- National and Regional Brokers
- Benefits Consulting Firms

2001 Milestones

- began incorporating $1.0 billion in OneBeacon business into Regional Agency Markets, creating two new regional companies
- enhanced customer Internet portals through increased real-time information sharing and speedier transaction processing
- selected as lead insurer for World Trade Center site-remediation

Key Strategies

- effective management of multiple-channel distribution network
- superior service at competitive prices through effective use of technology



Insurance for Individuals

Overview

Liberty Mutual is one of the top providers of personal insurance coverage for individuals and households in the United States and Canada, with full lines of auto, home, valuable possessions and personal liability insurance, as well as life insurance.

Major Business Units

Personal Market
Individual Life
Regional Agency Markets

Products and Services

Auto and Home Insurance
Life Insurance
Annuities
Structured Settlements

Distribution

- Direct Sales Force
- Independent Agents
- Telephone Sales
- Mass Marketing
- E-Commerce
- Financial Institutions
- Structured Settlement Brokers

2001 Milestones

- achieved $1 billion in premium for insurance sold through employers and associations
- became a leading provider to and investor in ComparisonMarket, an Internet-based comparative shopping facility for auto insurance
- introduced new claims system to improve customer service and claim processing

Key Strategies

- effective management of multiple-channel distribution network
- superior service at competitive prices through effective use of technology
- a forceful advocate for home and highway safety on behalf of our customers

Liberty International

Overview

Liberty International provides insurance products and services through two distinct approaches: our wholly owned country-specific companies, which sell predominantly personal lines products; and Liberty International Underwriters (LIU), which sells specialty commercial lines worldwide, including casualty, specialty casualty, marine, energy, engineering and reinsurance.

Country-Specific Companies

Liberty Health Canada
Liberty Paulista (Brazil)
Liberty Seguros Caracas (Venezuela)
Liberty ART S.A. (Argentina)
Liberty Seguros (Colombia)
Liberty Citystate Insurance (Singapore/Hong Kong)
Liberty Seguros (Spain)
Narai Insurance (Thailand)

Products and Services

Personal Auto Insurance
Workers Compensation Insurance
Life Insurance
Disability and Health Insurance

Liberty International Underwriters

Liberty International Underwriters Inc. (New York)
Liberty Syndicate Management (Lloyd's 190, 282)
Liberty Mutual Insurance Company (UK) Ltd.
LIU Australia
LIU Canada
Liberty International Insurance Ireland, Ltd.

Products and Services

Specialty Casualty and Casualty
Marine, Energy and Engineering Insurance
Reinsurance

Distribution

- Direct Sales Forces
- E-Commerce
- Brokers, Agencies and Agents

2001 Milestones

- grew new written premium by 47 percent
- acquired companies in Spain, Colombia and Venezuela
- solidified position as the number one, foreign-owned P&C insurer in South America

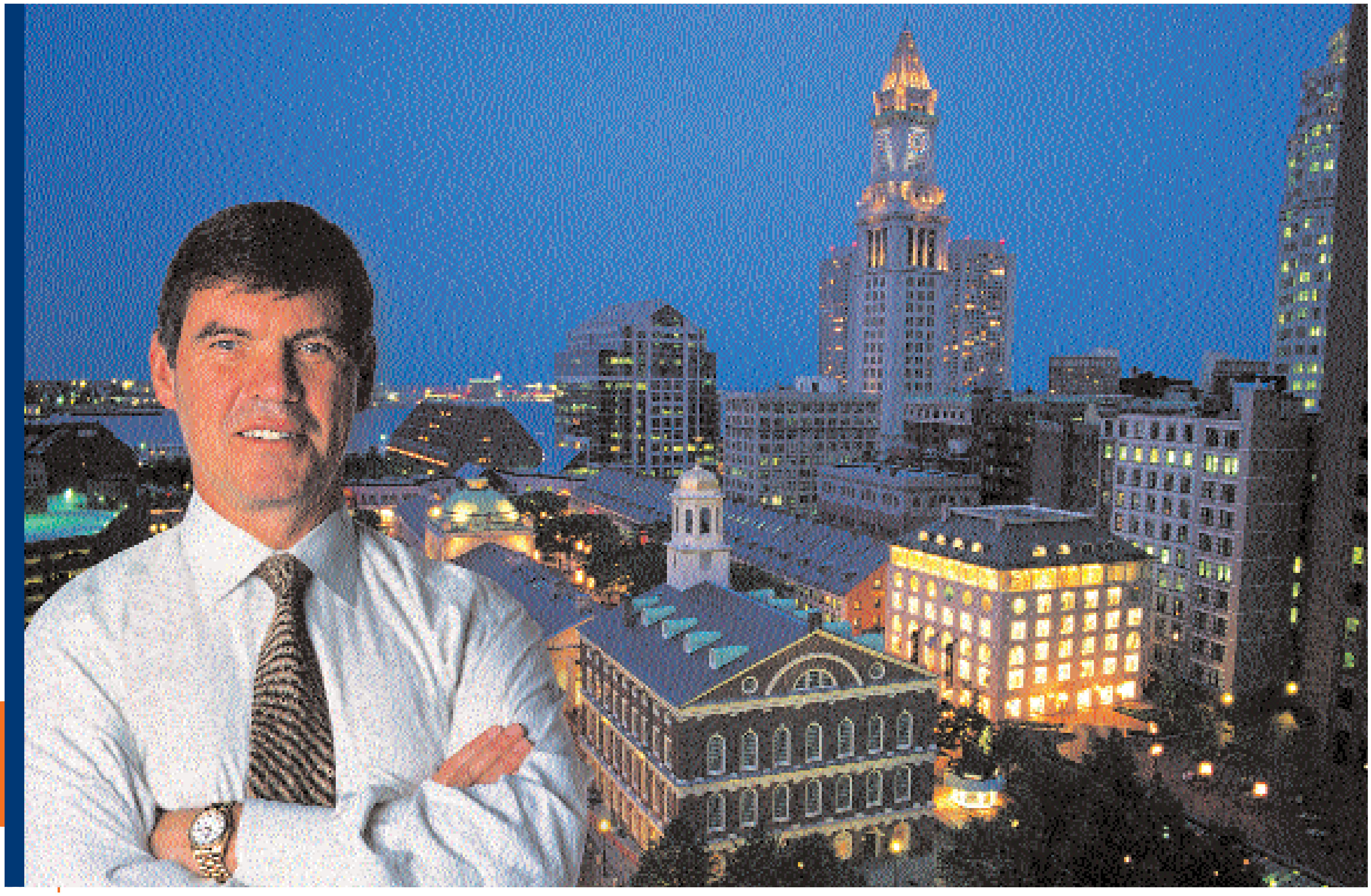
Key Strategies

- be the leading foreign underwriter of personal lines in South America
- be a top-tier global specialty lines company

table of contents:

Liberty Mutual Group 2001 Annual Report

Financial Contents



Edmund F. Kelly, *Chairman, President and Chief Executive Officer*

2001: One of the Most Significant Years in Your Company's History

While it's easy to overstate the importance of a given year, it's clear that 2001, without a doubt, was one of the most significant years in the 90-year history of your company.

Illustrating this statement are three major events, two of which positioned us for sustained growth and profitability, while the other made clear the fundamental importance and critical nature of what we do.

First, I'm pleased to be writing you, for the first time, as members of Liberty Mutual Holding Company Inc. (LMHC). Thanks to your overwhelmingly positive vote, we successfully created LMHC on November 28, 2001.

As a mutual holding company, we now have greater strategic and capital flexibility to pursue growth through consolidations, mergers, acquisitions and alliances. This flexibility is extremely important given today's rapidly changing, and consolidating, global property and casualty insurance marketplace.

Just as important, we remain a mutual company. Liberty Mutual was founded in 1912 on the fundamental belief that having common goals with its policyholders was the best way to prevent workplace accidents and injuries, and minimize losses when accidents occur. We still believe working together with our policyholders is the best way to do business.

The second event of strategic significance was the sale of Liberty Financial Companies and its asset management, and annuity and bank marketing businesses. This sale allows us to focus our attention and resources on what we do best – provide high-quality property and casualty products and services at competitive prices. Today we have an enviable mix of property and casualty businesses, a good franchise in each business, and a solid platform for future growth and profitability.

Third, the tragic events of September 11 underscored the important role of a financially strong insurance industry in today's global economy. If there was any good to come from this horrible tragedy, it was that it reaffirmed for us, and we trust for you, the importance of what we do as an insurer and provider of risk management products and services. While no one imagined a catastrophe of such magnitude would ever occur, these situations are what we're in business to handle. I'm extremely proud of our employees' immediate and sustained response, as caring human beings and as insurance professionals. Whether it be our claims professionals, who worked around the clock to set up and staff catastrophe units, or our loss prevention experts, who are coordinating the safe clean-up of the World Trade Center site, the tragic event brought out the best in us personally and professionally.

From a financial standpoint, September 11 clearly had a significant negative impact on Liberty Mutual, with that event alone resulting in a pre-tax loss of approximately $500 million. While it is little consolation, we were not alone, with the worldwide property and casualty industry incurring upwards of $40 billion in Sept. 11-related losses.

However, long before September 11, we encountered events that would negatively affect Liberty Mutual's performance, from Tropical Storm Allison to severely underpriced homeowners insurance and prior years' reserve increases, to the collapse of an oil rig in the South Atlantic. As a result, our pre-tax operating income fell by $1.3 billion and our surplus by $1.4 billion.

At the business unit level, excluding the events of September 11, our core domestic commercial business was on its way to solid improvement in operating results, and we look to the continuation of that trend in 2002.

In contrast to this improvement in our commercial lines, however, was poor performance in our personal P&C lines, especially homeowners, where we and the industry failed to recognize changing loss trends and adjust rates accordingly. I'm confident that we will turn around this performance in 2002, while continuing to enhance our high customer satisfaction levels, as made evident by our 93 percent homeowners and 92 percent auto retention rates.

In our life insurance business unit, I'm pleased to report that we hit a milestone in 2001, breaking $100 million in premium, and retaining our position as the largest distributor of life insurance through banks.

Within our five-year-old independent agency system, we saw continued operating improvement in our existing

>

companies, which include Peerless Insurance, Indiana Insurance, Colorado Casualty, Summit, Golden Eagle and Montgomery Mutual. At the same time, we entered into an exciting arrangement with OneBeacon, which will expand our book of business by up to $1.0 billion while positioning us as a true national organization of regional companies with operations in 42 states.

In the international arena, we continued to make considerable strides. Despite the impact of September 11 and the challenging economic conditions in Latin America, we experienced strong growth, driven primarily by acquisitions in our local businesses, and strong organic growth for Liberty International Underwriters, our global specialty lines business. Of particular note were: the establishment of a local company presence in Spain, where we bought two companies; an acquisition in Colombia, which made us the second-largest P&C company in that nation; a substantial acquisition in Venezuela, making us the largest provider of insurance in that country; and, capitalizing on a fast-changing situation, the formation of a personal auto insurance company in Argentina.

Clearly, while 2001 was a year in which we fared poorly from a financial perspective, it was a year of considerable achievement at both the corporate and business unit levels.

The events of 2001, both positive and negative, strengthened our company and our dedication to helping people live safer, more secure lives. Our strength comes from both the hard work and professionalism of our employees, and the long-term support of our policyholders and members.

Once again, I wish to express my appreciation for the continued support and guidance of our Board of Directors and 30 Advisory Boards, and for the dedication and commitment of our management team and 35,000 employees worldwide.

Finally, I want to thank you, our customers and policyholders, for the trust and confidence you continue to place in Liberty Mutual as your insurer. At this crossroads, as with many before it, we must preserve the best of our tradition and pursue the most of our potential. We do so on behalf of you – the customers and policyholders we serve, the people we employ and the communities we so proudly support.

Edmund F. Kelly

Chairman, President and Chief Executive Officer

Edmund F Kelly

this is what we do:

Globalization. Industry consolidation. Financial services deregulation. Multi-channel distribution. Terrorism. These are just some of the complex issues facing today's global insurer.

Obviously, the insurance marketplace is much changed from when Liberty Mutual was founded in 1912 as one of the first workers compensation providers. However, while the environment in which we operate is constantly changing, and the pace of that change accelerating, our role as an insurance company remains fundamentally the same. Today, as was the case 90 years ago, Liberty Mutual helps people live safer, more secure lives. And we do so by remaining financially strong, by being sensitive to the needs of our customers, by being creative, flexible and responsive in how we service those needs, and by consistently delivering what we promise.

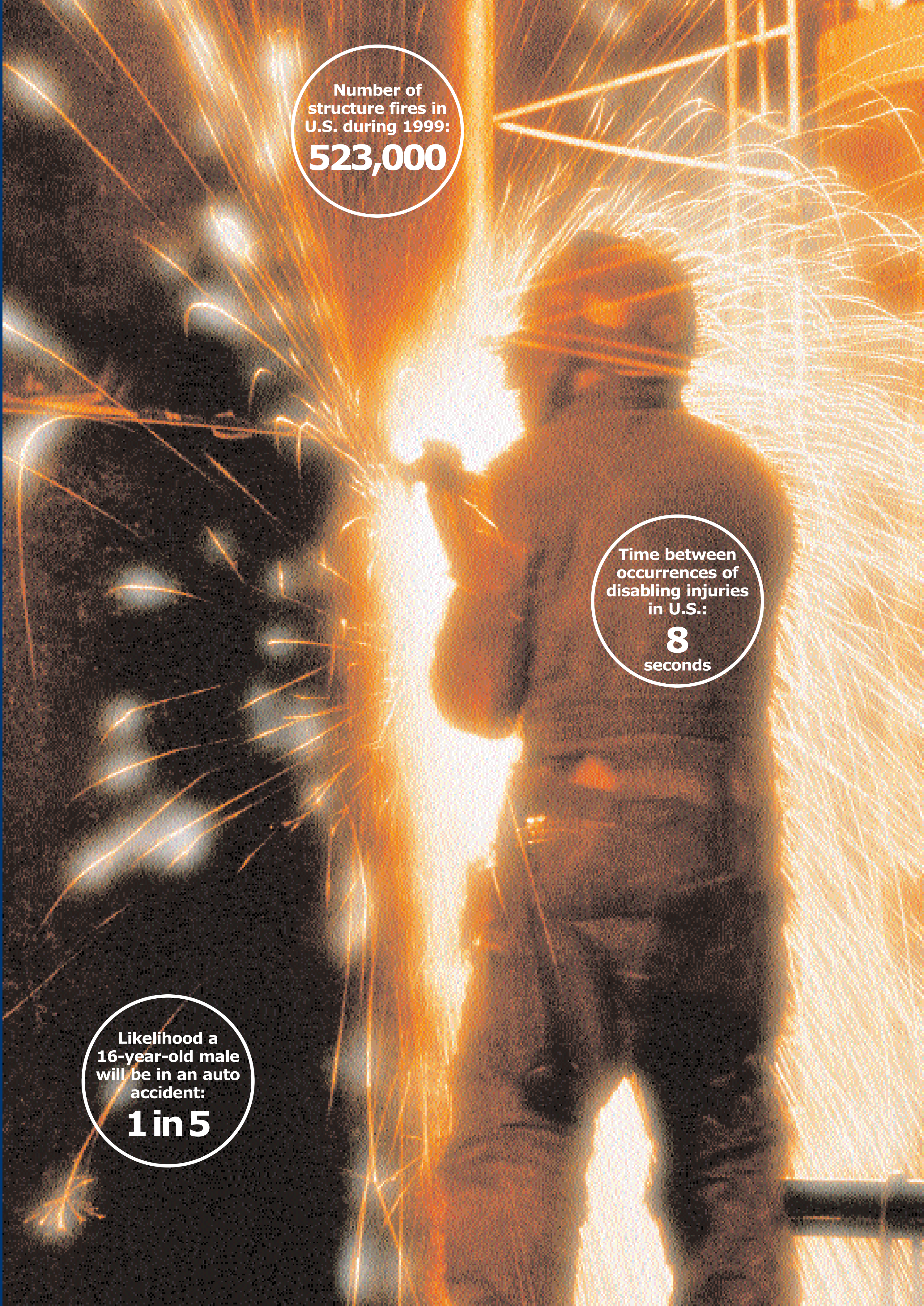
90
Years of Service

Today, as was the case 90 years ago, Liberty Mutual helps people live safer, more secure lives.

Yes, we are a much larger, more diversified company today than we were 90, or even five, years ago. We constantly evolve to meet our customers' changing needs and thus compete successfully in today's marketplace.

What differentiates Liberty Mutual, however, is not our size or breadth of product offerings, but how well we serve our customers. Service excellence is our mantra, whether it's how well we manage global risk for a huge multinational, identify sources of loss at a mid-sized manufacturer, partner with an agent or broker, or handle your claim for a dented front fender.

In the following pages are examples of the many ways we work with you with the goal of adding value and providing superior service. After all, this is what we do.


Number of structure fires in U.S. during 1999:
523,000
Time between occurrences of disabling injuries in U.S.:
8
seconds
Likelihood a 16-year-old male will be in an auto accident:
1 in 5

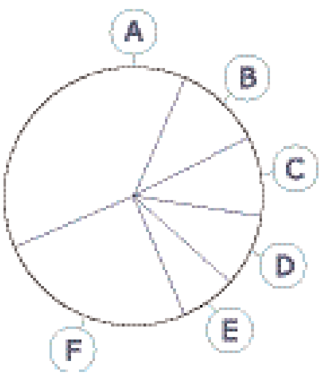
this is what we do: Assess and Assume Risk

Liberty Mutual, as do other property and casualty insurers, helps a diverse set of policyholders manage their risks. We do so not only by using our capital to assume financial risk, but by using our skills and experience to identify and evaluate potential causes of loss.

Vital to the task of risk management is of course the underwriter. The better our underwriters understand the risk characteristics of groups of individuals, or the risks associated with different types of businesses, the better they can match our risk management expertise and appetite for financial risk with the needs of prospective customers. When the match is right, we can best determine loss prevention and loss reduction programs, and tailor coverage to our policyholders' needs.

On the next two pages we profile two long-term underwriting relationships: one with a mid-sized manufacturer, the other with a multinational financial services firm. While dramatically different in terms of their risk management issues, each appreciates the benefits of working with the experts at Liberty.

U.S. Insurance Industry's Top Five P&C Insurance Lines in 2001...



A: Personal Auto: **38%**
B: Homeowners: **11%**
C: Workers Compensation: **10%**
D: General & Product Liability: **9%**
E: Commercial Auto: **7%**
F: Other: **25%**

largest loss:

With an estimated cost of $40 billion, the World Trade Center terrorist attacks represent the largest single insurance loss in history, surpassing by a wide margin the devastating losses arising from Hurricane Andrew in 1992.

Kennedy Die Castings: A 54-Year Partnership

Liberty Mutual's relationship with Kennedy Die Castings, Inc. is a long-term partnership based on mutual respect and profitability. Over the years, President Bob Kennedy (left in photo), and his father before him, have worked hard to reduce losses, and premiums, through effective safety and claims management programs.

Serving his company, a leading manufacturer of custom-designed aluminum and zinc die cast components and assemblies, are not only Liberty's sales, claims and loss prevention professionals, but Senior Underwriter Brian Johnson, CPCU. Experienced in claims and underwriting, Johnson goes beyond the traditional role of analyzing and pricing coverages by routinely meeting with customers to familiarize himself with their operations.

"Bob has worked hard to improve his company's safety performance, and that commitment is reflected in reduced premiums," said Johnson, shown above with Bob Kennedy. "By managing risks more efficiently, Bob's company profits, and for providing these services, Liberty Mutual earns a fair profit as well."

London, England

Prudential plc: Sophisticated Needs

Directors & Officers Liability. Errors & Omissions. Crime Bond. These are just some of the specialty casualty coverages required by Prudential plc, a 154-year-old, London-based provider of retail financial products and services and fund management to millions of customers worldwide.

For help with its sophisticated risk management needs, Prudential and its broker, Marsh, turned to Liberty International Underwriters (LIU). "We work in a triangular – not linear – fashion, with Liberty and our broker on a wide range of technical and commercial insurance issues," said Mark Butterworth, group insurance risk manager for Prudential plc.

"Liberty is one of the more experienced players in the London market," said Butterworth, shown at left above with LIU's Alan Telford. "They get to know our business, and they help us with emerging issues."

Formed as a global specialty lines business, LIU maintains six offices in the U.S., as well as offices in Toronto, Dublin, London and Sydney. "The market views us as a nimble and entrepreneurial operation," Telford said, "and we work hard to make sure we deliver on that image."


Total cost of U.S. workplace deaths and injuries:
$120-$240 billion
Number of people saved by seatbelts in 1999:
11,197
Average cost per work-related injury in 1999:
$32,900

this is what we do: Prevent and Manage Loss

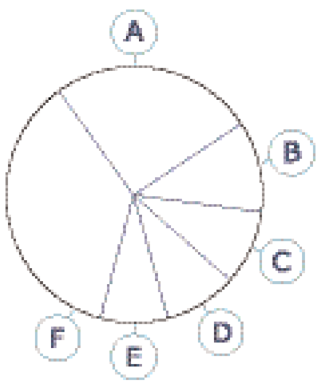
Each year, U.S. businesses spend $40 billion in direct costs – wage replacement and payments to medical care providers – related to workplace injuries. But that's not all. Liberty's studies have shown that the indirect costs – lost productivity and overtime – are far larger, three-to-five times larger, than the direct costs. This translates into a staggering $120 billion to $240 billion total cost to U.S. businesses for work-related injury and illness.

Clearly, workplace accidents needlessly cause pain and suffering to valuable employees and waste resources that impact business performance. By focusing on workplace safety improvements, a company can protect itself from the human and operational impact of a workplace accident, and better manage its financial performance.

Throughout its 90-year history, Liberty Mutual has been a leader in loss management services. Our 600 loss prevention consultants identify loss sources and suggest changes that help customers control or eliminate sources of loss, while our return-to-work programs ensure that injured employees get back on the job as quickly as possible. In addition to dollar savings, benefits include lower turnover, better morale and improved work quality.

Liberty Mutual, of course, cannot act alone to reduce a customer's workplace injuries and their related costs. Only through a partnership with our customers – as portrayed in the following pages – can we effectively control loss.

Five leading causes of workplace injuries...



A: Excessive lifting, pushing or pulling: **25.5%**

B: Same level falls: **11.5%**

C: Bending, standing or reaching: **9.4%**

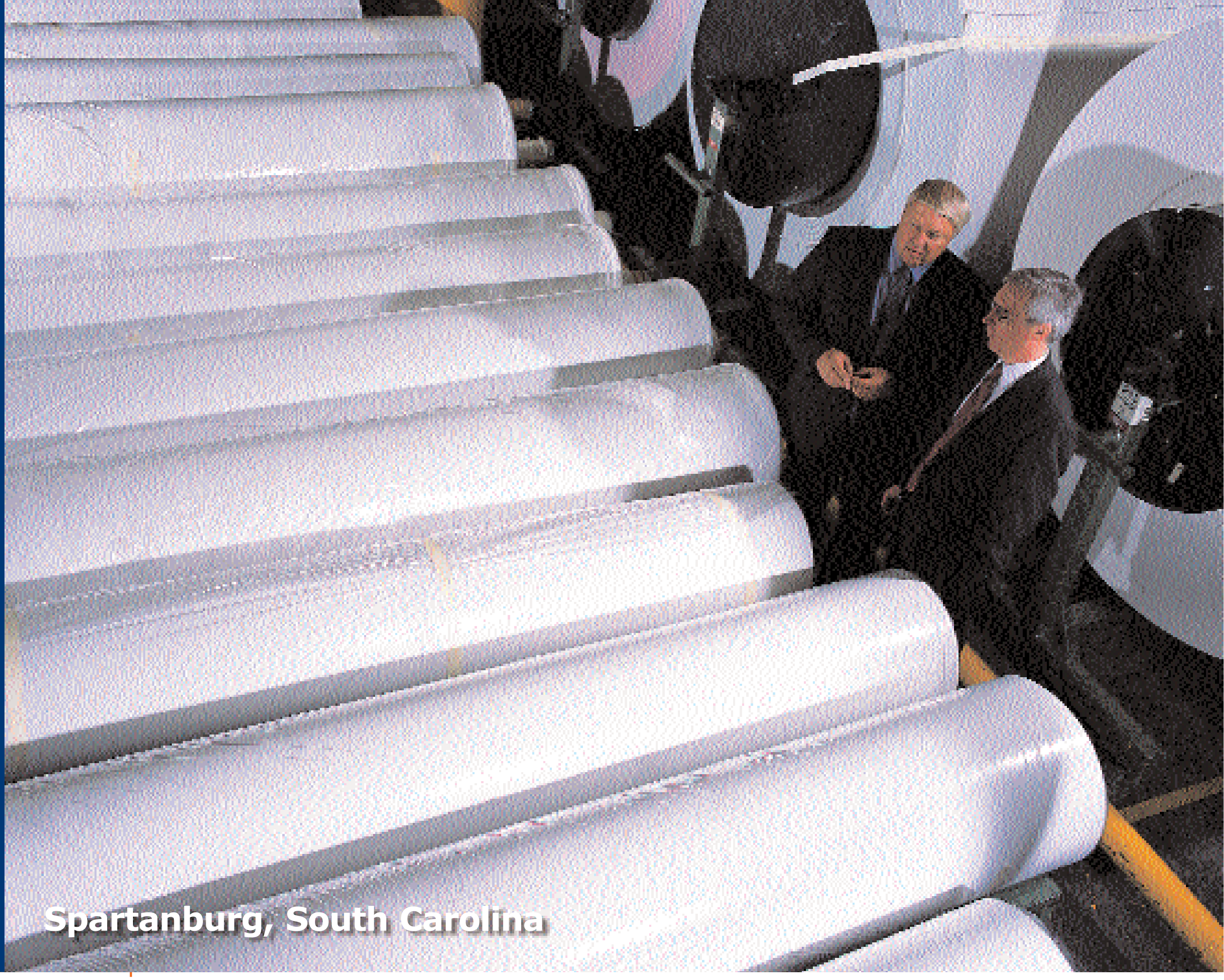
D: Falls to lower levels, such as from a ladder: **9.2%**

E: Struck by object, such as a tool falling on a worker: **8.5%**

F: Other: **35.9%**

workplace injury rates:

At work, a fatal injury occurs every 103 minutes and a disabling injury every 8 seconds.



Milliken & Company: Relentless Commitment to Safety

The Milliken & Company approach to the health and safety of its associates can be described in one word – relentless. They simply never stop improving their safety process.

A manufacturer of more than 38,000 textile and chemical products, and a 60-plus-year Liberty Mutual customer, Milliken has consistently reduced its Total Incident Rate and today is ten times better than the textile industry average, one of the safest industries in the U.S.

"Milliken's vision," according to Health and Safety Director Wayne Punch, "has two basic cornerstones. One, we will develop an uncompromising safety and health environment. And two, we have the basic belief that all incidents can and will be prevented."

"As part of our Architecture of Safety Excellence model," said Larry Trotter, Liberty Mutual service director (on right in photo with Wayne Punch), "we've launched our Performance Leadership process at Milliken, which seeks to change employee behaviors that lead to workplace incidents. This process involves all Milliken associates and the commitment of management, which Milliken understands and provides."

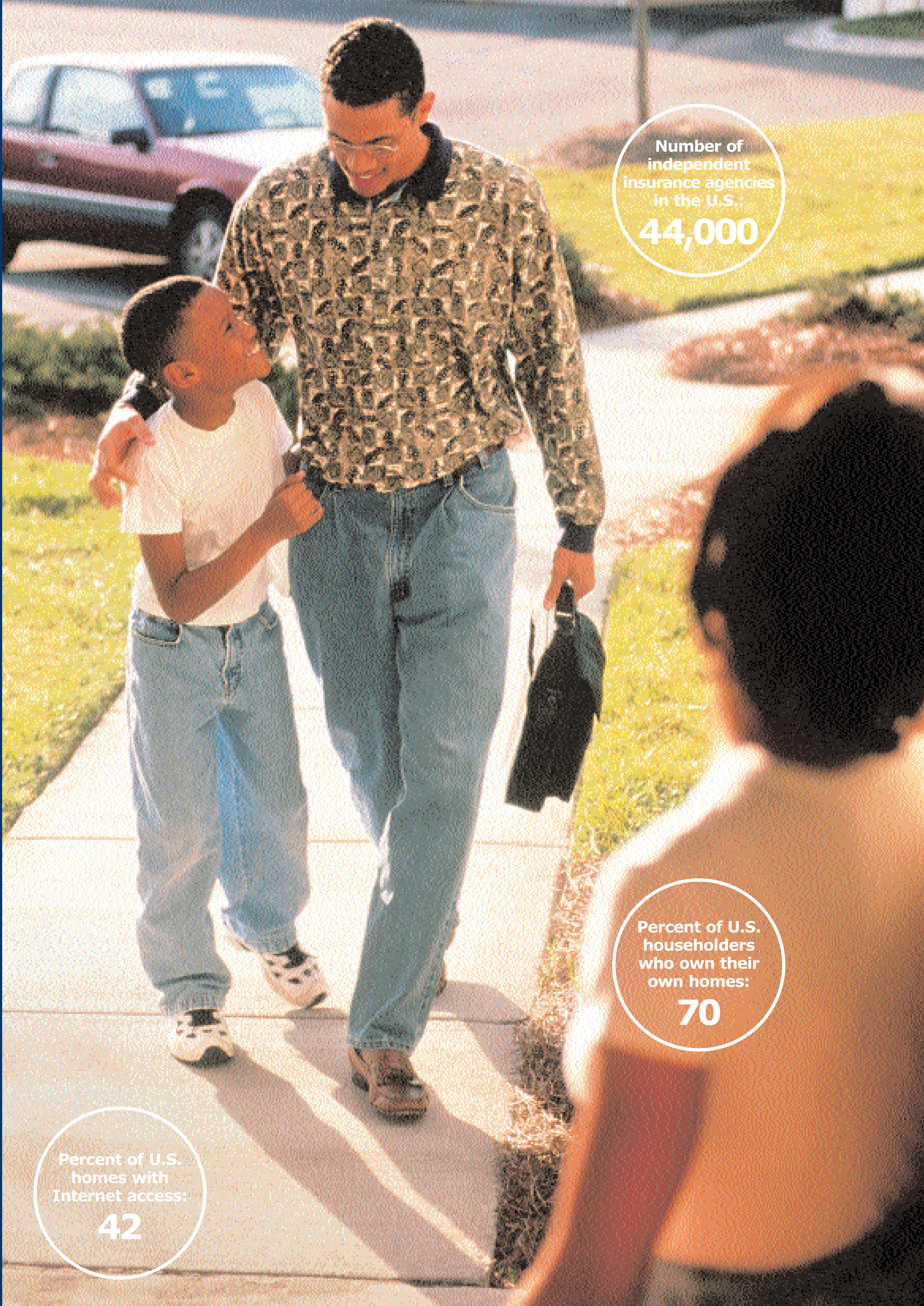
Flex-N-Gate: Compassionate Productivity

Jody Riley was working in her company's hot press department, when she began to feel sick. Diagnosed with heat stress, plant management immediately transported her to the hospital.

"Most people don't think of heat stress as a condition that could keep you away from work for a prolonged period of time," said Stephanie Meyenberg, human resources manager at Flex-N-Gate, which uses plastic injection molding to produce automotive bumpers at its plant in Ada, Oklahoma. "In fact, without an effective return-to-work program, Jody could have been out of work for up to four months."

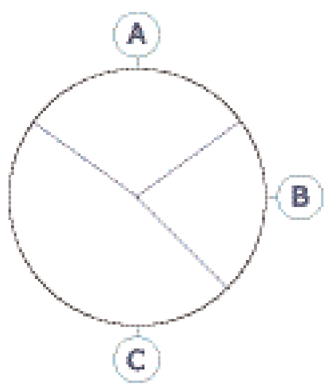
Fortunately for Riley, Flex-N-Gate is a participant in Wausau People@Work℠, a proven vehicle to reduce time lost and work absences. "With a return-to-work program, the temptation is to get the employee back to any job as quickly as possible. That's not compassionate to the employee nor is it productive to the employer," said Technical Claims Specialist Laura Standifer, at left in photo with Riley.

"Following People@Work℠ protocols," added Meyenberg, "we got Jody back to work in productive – not to mention cooler – employment within days."


Number of independent insurance agencies in the U.S.:
44,000
Percent of U.S. householders who own their own homes:
70
Percent of U.S. homes with Internet access:
42

this is what we do: Anticipate Your Needs

Percent of Americans who buy insurance through…



A: National Agencies: **30.0%**
B: Regional Agencies: **22.5%**
C: Direct Writers: **47.5%**

Just as we do more than identify risks and help prevent losses from happening, our services go beyond insurance sales and claims processing. We work with our customers to anticipate their insurance and risk management needs, whether it be a first-time homebuyer, a fast-growing agency, or an expanding business.

In our personal lines, for example, we train our direct sales force to look for life-changing events in their customers' lives, and to ensure that they are properly covered, whether it be the addition of a teenage driver to an auto policy or life insurance for an expectant couple. Through role playing and classroom training, we teach our personal lines sales representatives how to listen attentively to their customers, and ask the right questions for a better understanding of their needs. Whether it is a meeting at one of our 400 offices, an individual's home or the workplace of one of our Group Savings Plus® customers, our sales representatives make themselves available to serve customers, at the customer's convenience.

Our Regional Agency Markets companies apply the same philosophy when serving their 5,000 carefully selected independent agents. Guided by a mutually agreed-upon annual business plan and clearly defined underwriting criteria, we work with agencies to identify their future needs, pinpoint opportunities, apply innovative thinking, and measure the results. Underlying each agency relationship is a dedication to service excellence, from frequent personal contact to the convenience of our Internet-based quote, claims and billing inquiry capabilities, which place real-time information at the fingertips of agents.

Ultimately benefiting from this partnership, of course, is the policyholder, whether it be an individual, or a small- to mid-sized business.

insurance spending:

Vehicle, life and homeowners insurance account for four percent of total consumer expenditures.

The Reyes Family: Covering the Basics

As is often the case in the world of personal sales, Liberty Mutual's Nanette Sario met Eileen and Ramon Reyes through a mutual friend, and that was eight years ago.

A personal sales representative out of Pleasanton, Calif., Sario sold the Reyes renters' insurance in 1994, and has since moved on to home, auto and life insurance. "Like Eileen, I'm married with two children, so I can easily identify with the changes they experience as a family," she said. "Personal insurance is not a once-and-done product. Peoples' lives constantly change, and their insurance coverage needs to be expanded and adjusted accordingly. For example, I just added their daughter Shenna to their auto insurance policy."

"In today's world, where you never seem to have a moment to yourself, it's nice to have someone like Nanette," said Eileen, an IT project manager for a major corporation. "Both Ramon and I – he's a residential realtor – are very busy, and it's easy to forget the basic necessities, like insurance. That's why we're so grateful that Nanette checks on us from time to time, just to make sure we're covered appropriately."

ONB Insurance: A Mutually Beneficial Relationship

One of Liberty Mutual's most rapidly growing business segments is Regional Agency Markets (RAM), a $3 billion organization of regional insurance companies, which distributes small commercial and personal P&C insurance exclusively through independent agents.

"Most of our policyholders, when you ask them where they're insured, will name their independent agent, rather than the insurance company," said Jan McWhirter, territory manager, Indiana Insurance, a 150-year-old RAM company. "That's why we work so hard to anticipate, and fulfill, our independent agents' needs."

McWhirter is shown here with Dennis Feldhaus, senior account executive for Evansville, Indiana-based ONB (Old National Bank) Insurance, one of the largest agencies in Indiana, at the offices of policyholder Bernardin Lochmueller & Associates, Inc., a large, locally based engineering firm.

"Just as Indiana Insurance is selective in terms of the agents it does business with, we're careful as to where we place our business," added Feldhaus. "We want a high-touch insurer that knows our region. It's no coincidence that our relationship with Indiana Insurance – our largest – goes back 80 years."


Property fire losses in 1999:
$11.5 billion
Percent of U.S. property & casualty premiums spent on claims:
73.5
Number of insured motor vehicles in U.S. in 1998:
161 million

this is what we do: Deliver on Our Promises

A perfect world would have no accidents, no damage, no injuries. But, in the real world, accidents happen, and when they do – whether it's a major loss or a dented fender – you expect your insurer to do something, and do it fast.

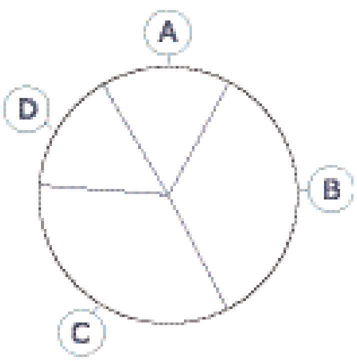
That's why, whether it's a commercial or personal insurance claim, we emphasize fast, efficient claims reporting and handling.

For all our customers, the sooner a claim is reported, in general, the less it will cost, and, in the case of workers compensation claims, the sooner the injured employee can return to productive employment. Prompt response and investigation of claims help control medical and indemnity costs, and avoids unnecessary attorney's fees.

To ensure prompt reporting, we offer our business customers a choice of phone, fax, Internet or electronic data exchange – 24 hours a day. And, when we respond, our more than 3,000 experienced and professional claims employees, working out of 75 workers compensation, liability and property centers, handle your claims in the most efficient and effective way possible.

For our personal insurance customers, the emphasis, above all else, is on convenient, courteous and responsive service. To report a claim, individuals can call their local office, our 24-hour Claims Service Center, or fill out a claims first report on-line. Whether they report a claim by phone or Internet, our customers are on their way to rapid appraisals, claim payments and repairs.

Percent of U.S. motor vehicle accidents by age of driver...



A: Under 20: **16.2%**
B: 20-34: **34.7%**
C: 35-55: **33.7%**
D: 56 plus: **15.4%**

Costliest year ever:

U.S. property and casualty insurers paid $24 billion in claims for insured property damage in 2001, making it the costliest year ever for catastrophe losses.

Bogota, Colombia

Colombian Auto Policyholders: Wowed by Service

Typically, if someone experiences an auto accident in Bogota, Colombia, it can take three or four visits, and waits up to four hours, to get the car appraised.

This is not the case for customers of Liberty Seguros, the leading auto insurer in Colombia, and a Liberty Mutual subsidiary. Through its five new Claims Service Centers, Liberty Seguros provides its customers with fast, efficient auto claims service.

"No appointment is necessary, and when people see our facility, they relax," said Lucy Chaparro, assistant manager of the Bogota center, shown above with Luis Guillermo Gil, a claims analyst. "Not only do we make sure they're comfortable, but we typically arrange a meeting with one of our claims analysts within 12 minutes, with a claim finalized within 27 minutes."

Today, Liberty Seguros' five Claims Service Centers, located in Colombia's five-largest cities, handle 1,400 claims per month. "More important," Chaparro said, "our customers gave us a 100 percent satisfaction rating in our most recent survey."

The Churchill Family: A Saved Christmas

It's any homeowner's nightmare. You drive down the street and realize the smoke billowing into the air is coming from your home.

Such was the case for Margaret Churchill of Townsend, Delaware, who encountered this situation just days before Christmas. "We were planning on decorating the tree that afternoon," said Margaret, a mother of four, "and the presents were on the couch, all wrapped and ready."

Margaret called Liberty Mutual's toll-free claims number, which connected her with Claims Adjuster Lisa Mild (on left in photo), a 17-year veteran. "Lisa arrived in no time, gave me a check to cover immediate expenses, and started talking me through everything."

"Everything" included determining the cause of the fire (a faulty lamp), and hiring contractors to clean up the debris and repair the heavily smoke-damaged home. "Liberty even hired a company to clean the presents using an ozone chemical cleaning process," Margaret said, "so we were able to salvage a Merry Christmas after all."

financial statements: Liberty Mutual Group

Combined Statutory Balance Sheets

December 31,	2001	2000
(dollars in thousands)		
Admitted Assets		
Investments:		
Fixed maturities	**$17,274,074**	$18,255,773
Common and preferred stocks	**2,092,870**	2,383,875
Investments in affiliates	**2,227,142**	2,868,367
Cash and short-term investments	**1,570,847**	1,264,935
Company occupied properties	**218,635**	230,403
Other investments	**521,177**	698,845
Cash and invested assets	**23,904,745**	25,702,198
Premiums receivable, net	**2,878,621**	2,802,282
Deferred tax asset, net	**612,598**	–
Reinsurance recoverable	**353,646**	358,532
Funds held by affiliates and other reinsurers	**556,747**	473,772
Other admitted assets	**1,069,053**	926,786
Total admitted assets	**$29,375,410**	$30,263,570
Liabilities and Surplus		
Liabilities:		
Losses unpaid	**$14,079,478**	$13,513,462
Loss adjustment expenses unpaid	**2,753,214**	2,864,576
Unearned premiums	**3,487,623**	3,129,686
Deposits and other liabilities	**1,200,379**	2,643,553
Funds held under reinsurance contracts	**1,480,901**	593,842
State taxes and assessments	**449,976**	95,495
Federal income taxes accrued	**99,432**	241,556
Dividends declared to policyholders	**44,187**	34,397
Total liabilities	**23,595,190**	23,116,567
Surplus:		
Surplus notes	**1,141,019**	1,140,855
Special and other surplus funds	**1,127,384**	321,500
Contributed capital	**15,000**	149,662
Unassigned surplus	**3,496,817**	5,534,986
Total surplus	**5,780,220**	7,147,003
Total liabilities and surplus	**$29,375,410**	$30,263,570

Combined Statutory Statements of Income

Years ended December 31,	2001	2000
(dollars in thousands)		
Premiums earned	**$ 8,760,262**	$ 8,450,375
Losses	**7,459,379**	6,323,149
Loss adjustment expenses	**1,379,664**	1,301,327
Underwriting and other expenses	**1,952,312**	1,852,062
Premium and other taxes and assessments	**425,845**	302,878
Total underwriting expenses	**11,217,200**	9,779,416
Underwriting loss before dividends	**(2,456,938)**	(1,329,041)
Dividends declared to policyholders	**88,568**	101,004
Underwriting loss	**(2,545,506)**	(1,430,045)
Net investment income	**1,232,835**	1,274,804
Realized investment gains, net	**295,997**	336,549
Other income, net	**659,280**	263,467
(Loss) income before income taxes	**(357,394)**	444,775
Federal and foreign income tax (benefit) expense	**(68,671)**	41,681
Net (loss) income	**$ (288,723)**	$ 403,094

See accompanying notes to combined statutory financial statements.

Combined Statements of Changes in Statutory Surplus

Years ended December 31,	2001	2000
(dollars in thousands)		
Statutory surplus, beginning of year	**$7,147,003**	$7,045,853
Add (deduct):		
Net (loss) income	**(288,723)**	403,094
Unrealized capital gains (losses):		
From unconsolidated subsidiaries	**(479,401)**	(16,186)
From non-affiliated securities	**(541,757)**	(264,383)
Cumulative codification adjustment	**(181,000)**	–
Other surplus changes, net	**124,098**	(21,375)
Statutory surplus, end of year	**$5,780,220**	$7,147,003

Combined Statutory Statements of Cash Flow

Years ended December 31,	2001	2000
(dollars in thousands)		
Cash provided:		
From operations:		
Premiums collected	**$9,069,843**	$8,493,039
Investment income and other income, net	**1,235,253**	1,240,004
Loss and loss adjustment expenses	**8,500,641**	8,193,785
Underwriting and other expenses, net	**2,303,657**	2,089,389
Net cash used by operations	**(499,202)**	(550,131)
From investments sold or matured:		
Fixed maturities	**8,282,624**	3,526,665
Common and preferred stocks	**689,950**	886,047
Other investments	**144,179**	122,250
Cash provided by investments	**9,116,753**	4,534,962
Securities lending collateral received, net	**–**	185,088
Debt financing, net	**183,314**	126,016
Other, net	**–**	220,369
Total other cash provided	**183,314**	531,473
Total cash provided	**8,800,865**	4,516,304
Cash applied:		
Cost of investments purchased:		
Fixed maturities	**7,155,972**	3,181,092
Common and preferred stocks	**606,533**	452,587
Investments in affiliates, net	**59,278**	227,273
Other investments	**174,778**	237,057
Cash applied to investments	**7,996,561**	4,098,009
Deposit liability	**82,198**	195,088
Securities lending collateral returned, net	**375,848**	–
Other, net	**40,346**	–
Total other cash applied	**498,392**	195,088
Total cash applied	**8,494,953**	4,293,097
Increase in cash and short-term investments	**305,912**	223,207
Cash and short-term investments, beginning of year	**1,264,935**	1,041,728
Cash and short-term investments, end of year	**$1,570,847**	$1,264,935

See accompanying notes to combined statutory financial statements.

(1) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying combined statutory financial statements of Liberty Mutual Insurance Company ("Liberty Mutual"), Liberty Mutual Fire Insurance Company ("Liberty Fire"), Montgomery Mutual Insurance Company ("Montgomery"), Merchants and Business Men's Mutual Insurance Company ("M&B") and Employers Insurance Company of Wausau ("EICOW"), formerly Employers Insurance of Wausau A Mutual Company ("EIOW"), collectively referred to as the "Companies", include, on a combined basis, the accounts of their U.S. property and casualty insurance subsidiaries.

The Companies provide most types of property-casualty insurance, fidelity and surety bonds and insurance-related services for individuals, businesses, government units and associations.

In 2001, Liberty Mutual reorganized into a stock insurance company as part of an overall conversion to a mutual holding company structure. Liberty Mutual formed as its ultimate parent Liberty Mutual Holding Company Inc., a Massachusetts mutual holding company ("LMHC"). Additionally, as part of its reorganization, Liberty Mutual formed (i) LMHC Massachusetts Holdings, Inc., a Massachusetts stock holding company ("LMHC MA") which is a direct, wholly-owned subsidiary of LMHC and (ii) Liberty Mutual Group, Inc., a Massachusetts stock holding company ("LMGI"), which is a direct, wholly-owned subsidiary of LMHC MA and the direct parent of Liberty Mutual. In 2001, EIOW reorganized into a stock insurance company named Employers Insurance Company of Wausau as part of an overall conversion to a mutual holding company structure. EICOW formed as its direct parent Employers Insurance of Wausau Mutual Holding Company, a Wisconsin mutual holding company ("EIOW MHC"). This was the first step in a series of transactions to be completed in 2002 designed to result in Liberty Mutual, Liberty Fire and EICOW, becoming indirect wholly-owned stock subsidiaries of LMHC, subject to satisfaction of all applicable approvals.

These financial statements exclude the accounts of LMHC, LMHC MA, LMGI and EIOW MHC.

The accompanying combined statutory financial statements have been prepared in conformity with accounting practices prescribed or permitted by the insurance departments of the states in which the companies are domiciled, which vary in some respects from accounting principles generally accepted in the United States ("GAAP"). Effective January 1, 2001 the National Association of Insurance Commissioners ("NAIC") revised the Accounting Practices and Procedures Manual in a process referred to as "codification". Accordingly, insurance companies are required to prepare their statutory basis financial statements in accordance with codification, subject to any deviations prescribed or permitted by the domiciliary state insurance departments. Principal variations from GAAP include:

Investments: Investments in bonds and mandatory redeemable preferred stocks are reported at amortized cost or market value based on their NAIC rating; for GAAP, such fixed maturity investments would be designated at purchase as held-to-maturity, trading or available-for-sale. Held-to-maturity fixed investments would be reported at amortized cost, and the remaining fixed maturity investments would be reported at fair value with unrealized gains and losses reported in operations for those designated as trading and as a separate component of surplus for those designated as available-for-sale.

Undistributed results of limited partnerships are reflected in unrealized gains on a statutory basis while GAAP utilizes the equity method unless the investor's interest is so minor that the limited partner may have virtually no influence over partnership operating and financial policies. Investments in excess of three to five percent are considered more than minor.

Subsidiaries: Controlling interests in subsidiaries other than domestic property and casualty insurance subsidiaries are not consolidated or combined, and the equity in earnings of unconsolidated subsidiaries is recorded in surplus as net unrealized capital gains or losses, with insurance subsidiaries' equity adjusted to a U.S. statutory basis. For domestic property and casualty subsidiaries acquired during the year, the full year's results of operations are included in the combined statements of income.

Purchase Accounting: The excess of purchase price over the fair value of net assets acquired, or historical statutory surplus in the case of domestic insurance companies ("statutory purchase accounting"), is considered goodwill and is capitalized and amortized on a straight-line basis over periods of up to ten years, subject to certain statutory limitations. Statutory accounting limits the amount of goodwill that can be carried as an admitted asset to ten percent of surplus for the most recently filed statutory financial statements adjusted to exclude any net positive goodwill, EDP equipment and operating system software, and net deferred tax assets ("limitation basis surplus"). Goodwill in excess of the limitation is non-admitted. Goodwill is amortized over a period not to exceed ten years and is reflected as a component of unrealized capital gains or losses for unconsolidated subsidiaries and other surplus changes for combined companies. Under GAAP, goodwill is determined as the excess of purchase price over the fair value of net assets acquired and for acquisitions prior to July 1, 2001 is amortized through earnings over a period not to exceed 40 years. For acquisitions after July 1, 2001 and for all goodwill as of January 1, 2002, GAAP no longer requires periodic amortization of goodwill.

Deferred Policy Acquisition Costs: The costs of acquiring and renewing business are expensed when incurred. Under GAAP, such costs, to the extent recoverable, would be deferred and amortized over the effective period of the related insurance policies. Commissions allowed by reinsurers on business ceded are reported as income when received rather than being deferred and amortized with deferred policy acquisition costs, as required under GAAP.

Non-admitted Assets: Certain assets designated as "non-admitted," principally premiums receivable greater than ninety days old (net of any valuation allowance established for amounts deemed uncollectible and charged to earnings), furniture and equipment, deferred tax assets and goodwill in excess of statutory limitations, other intangible assets, and as of January 1, 2001, any other assets not specifically identified as an admitted asset within statutory accounting guidance, are excluded from the accompanying balance sheets. Changes in such non-admitted assets are charged or credited directly to surplus. Additionally, codification requires valuation allowances to be recorded by a charge to operations if asset impairment is probable and can be reasonably estimated. Such allowances are included in the cumulative effect of the implementation of codification and result in an offsetting reduction in non-admitted assets. Under GAAP, such assets are included in the balance sheet, net of any valuation allowance required.

(dollars in thousands)

Policyholder Dividends: Policyholder dividends are recognized when declared rather than over the term of the related policies under GAAP.

Employee Benefits: For purposes of calculating the Companies' pension and postretirement benefit obligations, only vested participants and current retirees are included in the valuation. Under GAAP, active participants not currently eligible are also included.

Reinsurance: Reserves for losses and loss adjustment expenses and unearned premiums ceded to reinsurers have been reported as reductions of the related reserves, rather than as assets as would be required under GAAP.

Gains from retroactive reinsurance contracts are reported as a segregated surplus account ("special surplus funds") and are not reported as unassigned surplus until the Companies have recovered amounts in excess of the consideration paid. Reserves transferred are recorded as a contra liability in "other liabilities". Under GAAP, such gains are deferred and recognized in income using the interest method over the period the underlying reinsured claims are paid.

A liability for reinsurance balances (net of any allowance for amounts deemed uncollectible and charged directly to earnings) has been provided for unsecured reinsurance balances due from reinsurers not authorized to transact business in the respective states of domicile ("unauthorized reinsurance"). This liability is not required under GAAP.

Deferred Income Taxes: Effective January 1, 2001, deferred tax assets are limited to (1) the amount of federal income taxes paid in prior years that can be recovered through loss carrybacks for existing temporary differences that reverse by the end of the subsequent calendar year; plus (2) the lesser of the remaining gross deferred tax assets expected to be realized within one year of the balance sheet date or 10% of limitation basis surplus; plus (3) the amount of remaining gross deferred tax assets that can be offset against existing gross deferred tax liabilities. The remaining deferred tax assets are non-admitted. Deferred taxes do not include amounts for state taxes. Prior to January 1, 2001, deferred federal income taxes were not provided for differences between financial statement amounts and tax bases of assets and liabilities. Changes in deferred tax assets and liabilities are recognized as a separate component of changes in surplus. Under GAAP, state taxes are included in the computation of deferred taxes, a deferred tax asset is recorded for the amount of gross deferred tax assets expected to be realized in future years, and a valuation allowance is established for deferred tax assets not realizable.

Surplus Notes: Surplus notes represent subordinated debt instruments classified as a component of surplus for statutory accounting purposes. Associated surplus note issuance costs are deferred, non-admitted and amortized using the interest method over the period to maturity. The difference between proceeds received and the face value of the surplus notes is amortized using the interest method over the period to maturity. Interest expense on surplus notes is reported as a component of net investment income. Under GAAP, surplus notes are reported as debt and the associated interest is reported as interest expense.

Guaranty Funds and Other Assessments: Effective January 1, 2001, a liability for guaranty funds and other assessments is accrued after an insolvency has occurred, regardless of whether the assessment is based on premiums written before or after the insolvency, and offsetting premium tax credits and policyholder surcharges are recognized. Loss based assessments are assumed probable when the subject losses are incurred. Prior to January 1, 2001, guaranty fund and other assessments were accrued when the Companies received notice that an assessment was payable. Under GAAP, assessments are typically accrued to match the underlying basis of assessment.

Statements of Cash Flow: Cash and short-term investments include investments with maturities of one year or less at the time of purchase. Under GAAP, the corresponding caption of cash and cash equivalents includes cash balances and investments with initial maturities of three months or less.

On a GAAP basis, consolidated policyholders' surplus was $5,885,000 and $7,888,000 at December 31, 2001 and 2000, respectively, and net loss for the year ended December 31, 2001 was $1,946,000 and net income for the year ended December 31, 2000 was $161,000.

Upon adoption of codification, effective January 1, 2001, the cumulative effect of the change in accounting was a decrease in surplus of $181,000. The components of the cumulative codification adjustment were as follows:

Guaranty funds and other assessments	$(294,075)
Net deferred tax asset	574,174
Postemployment benefits and compensated absences	(98,561)
Non-admitted goodwill	(78,277)
Allowance for doubtful accounts	(195,273)
Other	(298,744)
Subtotal	(390,756)
Offsetting changes in non-admitted assets	209,756
Total	$(181,000)

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known that could impact the amounts reported and disclosed herein.

(b) Investment Securities

Investment securities are carried according to valuations promulgated by the NAIC. Fixed maturity securities are generally carried at cost and adjusted where appropriate for amortization of premium or discount, including anticipated prepayments; unaffiliated common stocks are carried at market value; preferred stocks are carried at cost or market in accordance with the NAIC; investments in affiliated common stock of insurers and noninsurers are generally carried on the statutory equity basis and GAAP equity basis, respectively; short-term investments are carried at cost; and company-occupied properties are carried at depreciated cost. Investments in venture capital limited partnerships are carried on the equity method. In 2000, the investment in Liberty Financial Companies, Inc. (LFC) was carried at its publicly traded market value, net of a 30% valuation discount determined by the NAIC.

Prepayment assumptions for single class mortgage-backed/asset-backed securities and multi-class securities are obtained from internal estimates. These assumptions are consistent with the current interest rate and economic environment. The retrospective adjustment method is used to value all single class mortgage-backed/asset-backed securities and multi-class securities.

Realized gains and losses on sales of investments are recognized in net income using the specific identification method. Changes in unrealized gains and losses on stocks, certain fixed maturities, and other investments are recorded in surplus. Investment securities are regularly reviewed for impairment based upon criteria that include the extent to which cost exceeds market value, the duration of the market decline and specific issuer financial condition. Unrealized losses that are other-than-temporary are recognized in earnings. Any derivatives not qualifying as hedges are marked to market through income and are included in other assets or liabilities.

(c) Fair Values of Financial Instruments

The Companies have used the following methods and assumptions in estimating fair value disclosures of financial instruments:

Investment securities: Fair values for fixed maturity securities are based on quoted market prices, when available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments or values obtained from independent pricing services. The fair values for equity securities are based on quoted market prices.

Cash and short-term investments: The carrying amounts reported in the balance sheets for these instruments approximate their fair values.

Derivatives: The carrying amounts reported in the balance sheets for these instruments approximate their fair values.

(d) Securities Lending

Securities lending activities consist of lending certain U.S. government and corporate bonds to approved counterparties. All lending transactions are collateralized by securities, accrued interest and cash with a total market value equal to or in excess of at least 102% of the market value of the loaned securities. Short-term investments and cash collateral received are recorded as assets, with a corresponding liability recorded for the return obligation.

(e) Recognition of Premium Revenues

Premiums are recognized as income on a pro-rata basis over the terms of the policies or as loss experience dictates in the case of retrospectively rated policies. Unearned premiums represent the unexpired portion of premiums written. Premium adjustments resulting from retrospective rating of experience-rated policies and unbilled audit premiums are estimated and accrued, along with the related taxes, assessments and expenses associated with acquiring, billing and collecting the premiums. When the anticipated losses, loss adjustment expenses, commissions, other acquisition costs and maintenance costs exceed the recorded unearned premium reserve and future installment premiums on existing policies, a premium deficiency reserve is established.

(f) Reinsurance

Transactions with reinsurers which do not transfer risk or which transfer risk but are retroactive are included in other admitted assets or deposits and other liabilities.

(g) Losses and Loss Adjustment Expenses Unpaid

The Companies provide reserves for unpaid insurance losses and loss adjustment expenses covering events that occurred in 2001 and prior years. These reserves reflect estimates of the total cost of claims reported but not yet paid and the cost of claims not yet reported, as well as the estimated expenses necessary to settle the claims. Reserve estimates are based on past loss experience modified for current claim trends, as well as prevailing social, economic and legal conditions. Final claim payments, however, may ultimately differ from the established reserves, since these payments may not occur for several years. Reserve estimates are continually reviewed and updated, and any resulting adjustments are reflected in current operating results.

The Companies do not discount reserves other than tabular discounting on the long-term indemnity portion of certain workers compensation claims and the long-term disability portion of group accident and health claims as permitted by insurance regulations in certain states. Reserves are reduced for estimated amounts of salvage and subrogation, deductibles recoverable from policyholders and amounts recoverable under reinsurance contracts.

(h) Foreign Exchange

The Companies convert foreign currencies to U.S. dollars in accordance with Statement of Statutory Accounting Principles No. 23, "Foreign Currency Transactions and Translations" whereby items of income and expense are translated at the average exchange rate for the period while balance sheet items are translated using the spot rate as of the balance sheet date.

(i) Reclassifications

Certain reclassifications to the 2000 combined statutory financial statements have been made to conform to the 2001 presentations.

(dollars in thousands)

(2) Investments

(a) Fixed Maturities

The statement and fair values of fixed maturity securities at December 31, 2001 and 2000, are as follows:

	Statement Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2001				
U.S. Treasury securities	**$ 639,211**	**$ 26,707**	**$ (4,776)**	**$ 661,142**
Mortgage and asset-backed securities of government and corporate agencies	**6,737,332**	**176,543**	**(42,908)**	**6,870,967**
State and municipal	**1,579,366**	**91,921**	**(1,964)**	**1,669,323**
Corporate and other	**8,318,165**	**271,234**	**(37,769)**	**8,551,630**
Total fixed maturities	**$17,274,074**	**$566,405**	**$(87,417)**	**$17,753,062**
December 31, 2000				
U.S. Treasury securities	$ 945,144	$ 31,160	$ (262)	$ 976,042
Mortgage and asset-backed securities of government and corporate agencies	6,946,575	166,810	(59,505)	7,053,880
State and municipal	2,125,140	123,205	(1,485)	2,246,860
Corporate and other	8,238,914	146,418	(115,886)	8,269,446
Total fixed maturities	$ 18,255,773	$ 467,593	$(177,138)	$ 18,546,228

The statement and fair values of fixed maturity securities at December 31, 2001, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because some securities may be called or prepaid.

	Statement Value	Fair Value
Due to mature:		
One year or less	$ 490,902	$ 497,430
Over one year through five years	3,015,121	3,128,547
Over five years through ten years	4,999,376	5,136,039
Over ten years	2,031,343	2,120,079
Mortgage and asset-backed securities	6,737,332	6,870,967
Total fixed maturities	$17,274,074	$17,753,062

(b) Common and Preferred Stocks and Other Investments

The cost of common and preferred stocks and other investments at December 31, 2001 and 2000, was as follows:

	2001	2000
Common stocks	**$ 784,409**	$ 799,513
Preferred stocks	**225,383**	136,550
Other investments	**510,101**	485,756
	$1,519,893	$1,421,819

(c) Derivatives

At December 31, 2001 and 2000, the Companies were party to derivative contracts in the form of equity swap contracts. The purpose of the equity swap contracts is to exchange rates of return of a specified set of common stocks for rates of return consistent with the broad equity markets as represented by Standard & Poor's Index of 500 common stocks. The Companies agree with counterparties to exchange, at quarterly intervals, the net performance differential of the Standard & Poor's Index of 500 common stocks and a portfolio of the Companies' common stocks. A single net payment is made by one counterparty at each due date. The Companies are exposed to potential credit loss with respect to only the net differential payments in the event of nonperformance by the counterparties.

At December 31, 2001 and 2000, the equity swaps had combined notional amounts of $361,879 and $383,285, respectively and fair values of $13,516 and ($51,980), respectively.

(d) Investments in Affiliates

Investments in affiliates consist primarily of the Companies' investments in unconsolidated insurance, international and financial services subsidiaries. The Companies' equity in the net assets of unconsolidated subsidiaries is summarized as follows at December 31, 2001 and 2000:

	2001	2000
Equity in net assets of unconsolidated subsidiaries	**$ 2,220,320**	$ 1,635,263
Market value of Liberty Financial Companies, Inc.	**–**	1,053,104
Loans to unconsolidated subsidiaries	**6,822**	180,000
Companies' investment in affiliates	**$ 2,227,142**	$ 2,868,367
Total assets	**$ 14,095,002**	$10,593,804
Total liabilities	**(11,862,260)**	(8,947,801)
Interests of other shareholders	**(12,422)**	(10,740)
Companies' equity in net assets	**$ 2,220,320**	$ 1,635,263

Equity in net assets of unconsolidated subsidiaries is distributed as follows at December 31, 2001 and 2000:

	2001	2000
International subsidiaries	**$831,302**	$1,126,739
Liberty Financial Companies, Inc.	**909,953**	–
Liberty Life Assurance Company of Boston	**131,031**	140,589
Other subsidiaries	**348,034**	367,935
Companies' equity in net assets	**$2,220,320**	$1,635,263

(dollars in thousands)

In 2000, the Companies changed the valuation methodology for LFC to the market value approach. The change in methodology increased the carrying value of LFC by approximately $456,000 at December 31, 2000. On October 31, 2001, LFC sold its annuity and bank marketing business for $1.7 billion in cash and on November 1, 2001, LFC sold its asset management business for $900,000 in cash and the buyer assumed approximately $110,000 in revolving debt. LFC recorded a gain on the sale, net of tax of $140,000 and the Companies recognized an unrealized gain of $98,000. Following the sales of LFC's operating subsidiaries, the Companies' acquired 100% ownership of LFC. As of December 31, 2001, the Companies' investment in LFC is valued on the statutory equity basis.

The remaining unamortized goodwill and other intangible asset balances included as a component of the Companies' investments in affiliates at December 31, 2001 and 2000, were $360,562 and $333,438, respectively. The remaining unamortized goodwill and other intangible asset balances associated with combined insurance subsidiaries reported in other assets at December 31, 2001 and 2000, were $40,220 and $42,338, respectively.

Liberty Mutual purchased a 99.99% interest in Royal & Sun Alliance, S.A. Compañía Española de Seguros y Reaseguros (re-named Liberty Insurance Group, Compania de Seguros y Reaseguros, S.A.) in Spain on November 26, 2001. Liberty Insurance Group, Compania de Seguros y Reaseguros, S.A. is licensed in Spain and sells property, casualty and life insurance. The transaction was accounted for as a statutory purchase and the cost was $191,937. Goodwill amortization relating to the purchase was $6,935 for the year ended December 31, 2001. Unamortized goodwill as of December 31, 2001 was $131,772.

In addition, the Companies' unconsolidated subsidiaries acquired various companies in 2001 and 2000 for aggregate consideration of $111,462 and $16,925, respectively.

(e) Realized Investment Gains (Losses)

Realized investment gains (losses) were as follows in 2001 and 2000:

	2001	2000
Fixed maturities:		
Gross gains	**$248,432**	$ 31,185
Gross losses	**(85,633)**	(48,839)
Common and preferred stocks:		
Gross gains	**266,571**	168,947
Gross losses	**(110,622)**	(63,871)
Other investments:		
Gross gains	**21,992**	259,933
Gross losses	**(44,743)**	(10,806)
	$295,997	$336,549

Proceeds from sales of fixed maturity investments during 2001 and 2000, were $6,007,281 and $2,578,060, respectively.

Gross losses included other-than-temporary impairment write-downs of $80,786 in 2001.

(f) Net Investment Income

Net investment income for the years ended December 31, 2001 and 2000, consisted of:

	2001	2000
Fixed maturities	**$1,286,098**	$1,331,269
Common and preferred stocks	**38,090**	40,794
Short-term investments	**26,749**	39,006
Other	**82,409**	68,872
Gross investment income	**1,433,346**	1,479,941
Investment and interest expense	**(200,511)**	(205,137)
Net investment income	**$1,232,835**	$1,274,804

(g) Statutory Deposits

At December 31, 2001 and 2000, fixed maturity securities carried at $4,564,853 and $4,671,043, respectively, were on deposit with regulatory authorities as required by law.

(h) Securities Loaned

At December 31, 2001 and 2000, the market values of fixed maturity securities loaned were approximately $153,515 and $697,434, respectively. Cash and short-term investments received as collateral in connection therewith at December 31, 2001 and 2000, were approximately $121,893 and $498,666, respectively, while non-cash collateral received in connection therewith was approximately $34,692 and $212,717, respectively.

(3) Losses and Loss Adjustment Expenses Unpaid

The Companies establish loss and loss adjustment expense reserves, which are estimates of future payments of reported and unreported claims for losses and the related future expenses. The process of establishing loss reserves is subject to uncertainties that are normal, recurring and inherent in the property and casualty insurance business. The process requires reliance upon estimates based on available data that reflects past experience, current trends and other information, and the exercise of informed judgment.

As information develops that varies from past experience, provides additional data or, in some cases, augments data that previously was not considered sufficient for use in determining reserves, changes in the Companies' estimate of ultimate liabilities may be required. The effects of these changes are reflected in current operating results.

Activity in the insurance loss and loss adjustment expense reserves of the Companies is summarized as follows:

	2001	2000
Balance as of January 1	**$16,378,038**	$16,928,795
Incurred attributable to:		
Current year	**7,657,053**	7,256,863
Prior years	**1,181,990**	367,613
Total incurred	**8,839,043**	7,624,476
Paid attributable to:		
Current year	**3,517,835**	3,302,112
Prior years	**4,849,162**	4,863,901
Total paid	**8,366,997**	8,166,013
Net adjustment due to foreign exchange	**(17,392)**	(9,220)
Balance as of December 31	**$16,832,692**	$16,378,038

In 2001 and 2000, incurred attributable to prior years was due to reserve increases primarily in commercial lines, including asbestos and environmental.

(dollars in thousands)

In 2000, incurred attributable to prior years was favorably impacted by reinsurance transactions with a wholly owned subsidiary as more fully disclosed in Note 5.

The Companies do not discount unpaid insurance losses and loss adjustment expenses other than tabular discounting on the long-term indemnity portion of workers compensation claims and group accident and health claims as permitted by insurance regulations in certain states.

The tabular discounting on these workers compensation claims is based upon Unit Statistical Plan tables as approved by the respective states and generally approximates 4.0%. Unpaid losses at December 31, 2001 and 2000 include liabilities of $3,619,664 and $2,782,925 at discounted values of $2,302,836 and $1,719,278, respectively.

The tabular discounting on group accident and health claims is based on the 1987 Commissioners Group Disability Table (CGDT) at annual discount rates varying from 5.00% to 5.75% (6.0% in 2000). Unpaid losses at December 31, 2001 and 2000 include liabilities of $674,854 and $611,108 carried at discounted values of $466,996 and $425,951, respectively.

Loss and loss adjustment expense reserves are recorded net of anticipated salvage and subrogation of $428,393 and $410,498 as of December 31, 2001 and 2000, respectively.

For certain commercial lines of insurance, the Companies offer experience-rated insurance contracts whereby the ultimate premium is dependent upon the level of ultimate losses and loss adjustment expenses incurred. At December 31, 2001 and 2000, the Companies held $4,228,743 and $4,067,094, respectively, of loss and loss adjustment expense reserves related to experience-rated contracts. Premiums receivable included accrued retrospective premiums and accrued unbilled audit premiums of $710,278 and $623,209 at December 31, 2001 and 2000, respectively, and $78,313 and $76,581, respectively, have been designated non-admitted and charged to surplus.

As of December 31, 2001, the amount of reserve credit recorded for high deductibles on unpaid losses was $1,451,967 and the amount billed and recoverable was $257,163.

(4) Asbestos and Environmental Reserves

The Companies have exposure to asbestos and environmental claims arising from the sale of general liability insurance. The Companies estimate the full impact of the asbestos and environmental exposures by establishing case basis reserves on all known losses and computing incurred but not reported losses based on previous experience and known changes in the legal and regulatory environment.

The process of establishing reserves for asbestos and environmental claims is subject to significant uncertainties including long reporting delays and uncertainty as to the number and identity of insureds alleging exposure. The legal issues concerning the interpretation of various insurance policy provisions and whether these asbestos and environmental losses are, or were ever, intended to be covered are complex. Courts have reached different and sometimes inconsistent conclusions as to when an alleged loss occurred, whether general liability insurance policies provided coverage, and if so, which policies would apply, whether there is an insured obligation to defend, how policy limits are determined, how policy exclusions are applied and interpreted and whether clean-up costs are covered as insured property damage.

Additionally, the Companies have historically maintained excess of loss reinsurance protection against large or unusual casualty losses. In specific instances, and at their discretion based on an analysis of the claims at issue, the Companies record reinsurance recoveries for those known claims which are clearly subject to reinsurance. However, the extent of future potential recoveries under reinsurance agreements cannot be fully determined at this time.

As more fully discussed in Note 5, upon deaffiliation from the Nationwide Group, EICOW entered into a reinsurance contract whereby, among other coverages, all asbestos and environmental exposures on policies with effective dates prior to January 1, 1986 were fully reinsured by Nationwide Indemnity Company. This reinsurance contract represents the majority of ceded asbestos and environmental reserves.

Reserve changes on individual asbestos and environmental matters reflect consideration of any newly acquired relevant information that may have an impact on reserve development. Given the complexities and significant uncertainties associated with estimating asbestos and environmental exposures, no assurances can be made as to the future potential impact of such claims upon the Companies. As additional information develops that would dictate a reserve change, the Companies' estimates of losses and loss adjustment expenses associated with asbestos and environmental claims are adjusted accordingly.

The following tables summarize activity for the Companies' asbestos and environmental losses and loss adjustment expense reserves, a component of the Companies' total reserves summarized in Note 3, for the years ended December 31, 2001 and 2000:

	2001	2000
Gross Asbestos:		
January 1 reserves:	**$1,371,347**	$1,238,326
Incurred activity	**408,725**	340,249
Paid activity	**195,162**	207,228
Ending reserves	**$1,584,910**	$1,371,347
Net Asbestos:		
January 1 reserves:	**$ 754,645**	$ 678,749
Incurred activity	**162,825**	218,053
Paid activity	**109,110**	142,157
Ending reserves	**$ 808,360**	$ 754,645
Gross Environmental:		
January 1 reserves:	**$ 852,246**	$1,084,827
Incurred activity	**73,917**	(115,265)
Paid activity	**153,211**	117,316
Ending reserves	**$ 772,952**	$ 852,246
Net Environmental:		
January 1 reserves:	**$ 460,570**	$ 679,621
Incurred activity	**92,777**	(132,229)
Paid activity	**114,960**	86,822
Ending reserves	**$ 438,387**	$ 460,570

(5) Reinsurance

In the ordinary course of business, the Companies assume reinsurance and also cede reinsurance to other insurers to reduce overall risk, including exposure to large losses and catastrophic events. The Companies are also members of various involuntary pools and associations and serve as servicing carriers for residual market organizations.

(dollars in thousands)

Premiums earned and losses and loss adjustment expenses incurred from reinsurance assumed for the years ended December 31, 2001 and 2000, were as follows:

	2001	2000
Premiums earned (residual markets)	$ 98,207	$ 79,211
Premiums earned (all other)	579,967	503,997
Incurred losses and loss adjustment expenses	905,724	703,015

Premiums earned and losses and loss adjustment expenses incurred have been reduced for reinsurance ceded for the years ended December 31, 2001 and 2000, as follows:

	2001	2000
Premiums earned (residual markets)	$ 345,158	$ 248,868
Premiums earned (all other)	1,378,101	1,371,370
Incurred losses and loss adjustment expenses	2,661,789	1,748,945

Unearned premiums and unpaid losses and loss adjustment expenses have been reduced for reinsurance ceded as follows:

	2001	2000
Unpaid losses and loss adjustment expenses (residual markets)	$1,816,260	$1,880,805
Unpaid losses and loss adjustment expenses (all other)	5,115,906	4,132,127
Unearned premiums (residual markets)	130,351	84,475
Unearned premiums (all other)	441,092	211,215

The Companies remain contingently liable in the event reinsurers are unable to meet the obligations for paid and unpaid loss recoverables and unearned premiums ceded under reinsurance agreements.

Effective November 1, 2001, Liberty Mutual acquired the renewal rights to the independent agency business of OneBeacon, excluding New York, New Jersey and New England. The business includes small commercial and personal lines and total premiums are estimated to be approximately $1,000,000. Under the terms of the agreement, Liberty Mutual will retain one third of the underwriting results in the first year, two thirds in the second year and one hundred percent thereafter. The transaction excludes insurance liabilities incurred prior to the effective date. Under the terms of the transaction, Liberty Mutual assumed the related infrastructure, employees and underwriting responsibility for the business.

In 2001 and 2000, the Companies entered into retroactive reinsurance treaties with unaffiliated entities. The Companies transferred loss and loss adjustment expense reserves of $1,603,000 and $460,000, respectively and recognized a gain through other income of $800,000 and $319,000, respectively. Included in the other income figures are accrued contingent profit sharing commissions of $162,500 and $0 for 2001 and 2000, respectively.

Liberty Mutual entered into a reinsurance agreement effective January 1, 1998 with Liberty Life Assurance Company of Boston ("Liberty Life"), an indirect, unconsolidated subsidiary of the Companies, whereby Liberty Life ceded 100% of long and short-term disability business on a funds withheld basis. Liberty Mutual assumed premiums earned of $253,480 and $261,528 in 2001 and 2000, respectively; and loss and loss adjustment expense reserves of $625,604 and $545,148 as of December 31, 2001 and 2000, respectively. The transaction resulted in a net loss of $2,062 and $18,091 in 2001 and 2000, respectively.

The Companies have reinsurance recoverables from Nationwide Indemnity Company in the amount of $1,099,175 as of December 31, 2001. The reinsurance recoverables are guaranteed by Nationwide Mutual Insurance Company. Additionally, the Companies have significant reinsurance recoverable concentration with National Indemnity Company (a Berkshire Hathaway, Inc. subsidiary) and North American Specialty Insurance Company (a subsidiary of Swiss Reinsurance Company) totaling $489,334 and $509,508, respectively, as of December 31, 2001, net of offsetting contractual liabilities.

The Companies entered into commutation agreements in 2000 with unaffiliated reinsurers. Loss and loss expense reserves of $143,974, were returned along with cash of $97,100. The transaction resulted in a net statutory loss of $30,468.

Liberty Mutual entered into an intercompany reinsurance agreement with a wholly owned unconsolidated subsidiary in 2000 whereby Liberty Mutual ceded $195,983 of loss and loss adjustment expense reserves in exchange for premium of $147,591. The transaction resulted in net statutory income of $31,454, with no impact upon statutory surplus. The Companies received regulatory approval to use prospective reinsurance accounting for 2000. In 2001, the treaty was commuted in conjunction with the implementation of codification.

In 1997 San Diego Insurance Company ("San Diego") entered into an assumed indemnity reinsurance agreement recorded under the deposit method in accordance with statutory accounting. At inception, approximately $1,215,000 of securities and other assets were transferred to San Diego and recorded as a deposit liability. Interest is credited on the contractual deposit balance at a rate of 7% annually. The outstanding deposit liability was $316,827 and $399,000 at December 31, 2001 and 2000, respectively. The Companies have recorded the maximum liability under the contract.

(6) Short-Term Borrowings

The Companies maintain a $600,000 revolving loan agreement maturing on December 31, 2003, with Liberty Mutual Capital Corporation (Boston), a wholly owned unconsolidated subsidiary. At December 31, 2001 and 2000, there were balances outstanding of $283,113 and $111,239, respectively. Interest is based on the average daily outstanding borrowings at a variable interest rate (5.00% and 6.91% at December 31, 2001 and 2000, respectively). Interest expense incurred related to this agreement was $10,205 and $10,041 in 2001 and 2000, respectively.

(dollars in thousands)

Liberty Mutual has aggregate pound sterling denominated demand notes payable to its subsidiary, Liberty Re Limited, totaling $333,188 and $341,984 (U.S. dollar equivalent at December 31, 2001 and December 31, 2000, respectively), and a demand note payable to its subsidiary Liberty Re (Bermuda) Limited, in the amount of $34,359 and $24,359 as of December 31, 2001 and 2000, respectively. Interest on these notes is payable semi-annually on the first day of April and October, computed at LIBOR plus .15%.

(7) Surplus Notes

Surplus notes represent subordinated debt instruments classified as a component of surplus for statutory accounting purposes. At December 31, 2001 and 2000, Liberty Mutual had the following surplus notes outstanding:

	2001	2000
8.20%, $250,000 Notes due May 4, 2007	**$ 249,706**	$ 249,651
8.50%, $150,000 Notes due May 15, 2025	**149,759**	149,749
7.88%, $250,000 Notes due October 15, 2026	**249,654**	249,640
7.70%, $500,000 Notes due October 15, 2097	**491,900**	491,815
	$1,141,019	$1,140,855

Payments for interest on and principal of the notes are expressly subordinate to all policyholder claims and other obligations of Liberty Mutual. Accordingly, interest and principal payments are contingent upon prior approval of the Commissioner of Insurance of the Commonwealth of Massachusetts. Interest paid was $91,422 for the years ended December 31, 2001 and 2000.

(8) Federal and Foreign Income Taxes

The Companies file consolidated federal income tax returns with their respective eligible subsidiary companies. Liberty Fire, Montgomery, M&B, and EICOW each file separate federal income tax returns. Pursuant to intercompany federal income tax allocation agreements, net operating losses and tax credits generated by certain subsidiaries and used to reduce the consolidated tax liability are reimbursed based on separate-return calculations. Intercompany tax balances are settled quarterly. Provision is made, where applicable, for taxes on foreign branch operations.

Total federal and foreign income taxes paid (recovered) were ($22,541) and $16,497 in 2001 and 2000, respectively. The amount of federal income taxes incurred and available for recoupment in the event of future net losses is $8,255 for the current year and $13,105 for the first preceding year. EICOW has net operating losses available for carryforward of approximately $294 million, expiring in 2002 through 2018. LMHC and Subsidiaries have net operating losses available for carryforward of approximately $844 million, expiring in 2020 and 2021.

Federal income taxes incurred for financial statement purposes are provided based upon the manner in which income and deductions are reported for tax purposes. The Companies' income tax expense differs from the amount obtained by applying the federal statutory rate of 35% to income before income taxes in 2001, principally due to revisions to estimates and the creation of net operating loss carryforwards; and in 2000, principally due to the effects of tax-exempt interest, dividends-received deductions and revisions to estimates.

The components of deferred tax assets (liabilities) are as follows:

	December 31, 2001	January 1, 2001	Change
Gross deferred tax assets	**$1,886,335**	$1,885,270	$ 1,065
Gross deferred tax liabilities	**(597,465)**	(744,070)	146,605
Net deferred tax assets	**1,288,870**	1,141,200	147,670
Deferred tax assets non-admitted	**(676,272)**	(567,026)	(109,246)
Deferred tax assets admitted	**$ 612,598**	$ 574,174	$ 38,424

The Companies' net deferred tax asset is principally due to net operating loss carryforwards, loss and loss adjustment expense reserve discounting, and unearned premium discounting offset by unrealized gains on securities.

(9) Benefit Plans

(a) Pension Plans and Postretirement Benefits

The Companies sponsor noncontributory defined benefit pension plans ("the Plans") covering substantially all U.S. and Canadian employees. The benefits and eligibility are based on age, years of service and the employee's compensation, as more fully defined in the Plans.

Assets of the Plans consist primarily of investments in life insurance company separate accounts and a collective investment trust fund, which invests primarily in fixed income and Standard & Poor's Index of 500 equity securities. At December 31, 2001 and 2000, assets of the Plans totaling $2,000,255 and $2,301,358, respectively, were held in separate accounts of Liberty Life Assurance Company of Boston ("Liberty Life").

The Companies also provide certain health care and life insurance benefits ("postretirement") for retired employees. Substantially all employees may become eligible for these benefits if they reach retirement age and have ten years of service working for the Companies. Alternatively, retirees may elect certain prepaid health care benefit plans. Life insurance benefits are based upon a participant's final compensation subject to the plan maximum.

(dollars in thousands)

A summary of assets, obligations and assumptions of the Plans and postretirement benefits are as follows at December 31, 2001 and 2000:

	Pension		Postretirement	
	2001	2000	**2001**	2000
Change in benefit obligation				
Benefit obligation at beginning of year	**$1,700,837**	$1,535,834	**$ 288,548**	$ 276,755
Eligibility costs	**74,860**	64,466	**10,836**	7,351
Interest cost	**124,425**	117,995	**20,362**	20,338
Amendments	**60,842**	25,580	**(6,500)**	(931)
Actuarial loss	**136,246**	66,245	**23,134**	5,340
Other	**28,824**	–	**7,539**	2,994
Benefits paid	**(89,042)**	(109,283)	**(25,990)**	(23,299)
Benefit obligation at end of year	**$2,036,992**	$1,700,837	**$ 317,929**	$ 288,548
Change in plan assets				
Fair value of plan assets at beginning of the year	**$2,434,278**	$2,544,049	**$ 24,800**	$ 25,026
Actual return on plan assets	**(194,958)**	4,230	**(791)**	1,674
Other	**29,524**	(1,919)	**–**	–
Employer contribution	**–**	–	**24,159**	21,399
Benefits paid	**(85,620)**	(106,266)	**(25,990)**	(23,299)
Administrative expense	**(8,879)**	(5,816)	**–**	–
Fair value of plan assets at end of the year	**$2,174,345**	$2,434,278	**$ 22,178**	$ 24,800
Reconciliation of prepaid/(accrued)				
Funded status of the plan	**$ 137,353**	$ 733,441	**$(295,751)**	$(261,558)
Unrecognized net (gain)/loss	**411,557**	(652,892)	**30,782**	5,144
Unrecognized prior service cost	**49,681**	–	**(6,539)**	(504)
Unrecognized net transition (asset)/obligation	**(666,284)**	(104,442)	**112,925**	124,124
Net amount recognized	**$ (67,693)**	$ (23,893)	**$(158,583)**	$(132,794)
Components of net periodic benefit cost for fiscal year				
Eligibility costs	**74,860**	64,466	**10,836**	$ 7,351
Interest cost	**124,425**	117,995	**20,362**	20,338
Special termination benefit charges	**–**	–	**–**	803
Expected return on plan assets	**(187,603)**	(142,047)	**(1,984)**	(2,065)
Amortization of unrecognized:				
Net (gain)/loss	**(325)**	(24,843)	**21**	1
Prior service cost	**–**	1,720	**(465)**	(31)
Net transition (asset)/obligation	**1,370**	(3,922)	**11,279**	11,304
Net periodic pension cost	**$ 12,727**	$ 13,369	**$ 40,049**	$ 37,701
Weighted-average assumptions				
Discount rate	**7.00%**	7.25%	**7.00%**	7.25%
Expected return on plan assets	**9.00%**	9.00%	**7.15%**	7.15%
Rate of compensation increase	**5.20%**	5.60%	**–**	–

The amount of the benefit obligation for non-vested employees was $39,904 and $28,444 at December 31, 2001 and 2000, respectively. The accumulated postretirement benefit obligation for non-vested employees was $107,984 and $91,318 at December 31, 2001 and 2000, respectively.

The health care cost trend rates were 6.75% in 2001 and 7.75% in 2000 respectively, graded to 5.00% in 2003. Health care cost trend rate assumptions have a material impact on the postretirement benefit obligation. An assumed change in health care cost trend rates by a one percentage point increase or decrease in each year would impact the postretirement benefit obligation as of December 31, 2001, by an increase of $29,642 or a decrease of $27,077 and the estimated eligibility cost and interest cost components of the net periodic postretirement benefit cost for 2001 by an increase of $1,982 or a decrease of $1,857.

(b) Thrift-Incentive Plan

The Companies sponsor defined contribution savings plans for employees who meet certain eligibility requirements. During 2001 and 2000, employees were permitted to contribute a percentage of their annual compensation on a combined before-tax and after-tax basis, subject to certain limitations imposed by the Tax Reform Act of 1986. The Companies made matching contributions of $57,000 and $54,000 in 2001 and 2000, respectively.

(c) Other Compensation Plans

The Companies provide various performance based compensation plans to employees meeting the participation requirements of the respective plans. Related compensation is determined in accordance with plan formulas.

(10) Commitments and Contingent Liabilities

The Companies periodically purchase annuity contracts from various life insurance companies to settle claims. When a contract is purchased, the corresponding loss reserve is eliminated. The primary liability for future claim payments resides with the life insurance company, but in certain instances, the Companies remain contingently liable in the event the life insurer is unable to meet its obligation. These annuities were primarily purchased from Liberty Life. At December 31, 2001 and 2000, the contingent liabilities amounted to $668,423 and $591,586, respectively, and represent the statutory reserves of the annuities as reported by the issuing companies.

On October 3, 2001, the Companies received notification of the insolvency of the Reliance Insurance Group. It is expected the insolvency will result in a gross guaranty fund assessment against the Companies of approximately $104,000 which was charged to operations in 2001 and was offset by future premium tax credits and policy surcharges of $44,000.

At December 31, 2001, the Companies had commitments to purchase various mortgage backed securities settling in 2002, at a cost of $725,716 with a fair market value of $720,867.

At December 31, 2001, the Companies had unfunded capital commitments to private equity partnerships of $609,500.

The Companies lease certain office facilities and equipment from others under operating leases expiring in various years through 2009. Rental expense amounted to $149,700 and $131,968 for the years ended December 31, 2001 and 2000, respectively. Future minimum rental payments under non-cancelable leases with terms in excess of one year are estimated to be, $180,393 for 2002, $160,278 for 2003, $132,960 for 2004, $95,712 for 2005, and $100,134 for 2006 and thereafter. It is expected that as leases expire they will be replaced.

In 2001, the Companies entered into a sale-leaseback agreement with an unrelated party for certain equipment, under a thirteen month lease period with monthly renewal options to a maximum of sixty months. The Companies sold non-admitted assets with a book value of $88,090 and received cash in the amount of $125,502. The transaction resulted in a deferred gain of $37,412 and an increase to unassigned surplus of $88,090.

During 2001, the Companies sold premiums receivable over 90 days past due totaling $74,831, net of valuation allowance, to LMGI for proceeds of $63,961, representing the estimated fair market value of the related asset. The transaction was completed without recourse. The Companies realized an increase in surplus equal to the proceeds received and recorded a loss on the sale in the amount of $10,870. Concurrent with the transaction, LMGI entered into a premiums receivable swap financial arrangement with a third party, whereby LMGI received $75,000 in cash for the discounted non-admitted premiums receivable.

Liberty Mutual guarantees the obligations of Liberty Life on insurance policies and contracts issued.

The Companies guarantee the performance of certain affiliates' obligations under various credit facilities. The total facilities had outstanding balances of $349,249 and $335,592 ($600,000 total revolving credit facility and $300,000 backup line of credit facility) as of December 31, 2001 and 2000, respectively.

Various lawsuits against the Companies 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 Companies.

(11) Unusual or Infrequent Items

The Companies have material exposure to losses arising from the terrorist attacks of September 11, 2001. The exposure arises from property, workers compensation, surety and reinsurance contracts written by member companies of the Liberty Mutual Group. Although uncertainty about the final loss amount still exists, the losses are reasonably estimable and such estimate has been recorded. The Companies believe that their reinsurers are financially sound and that reinsurance collectibility is not a significant issue or concern. The Liberty Mutual Group, including international subsidiaries, recognized a pretax loss, net of reinsurance, of approximately $500,000, with $167,000 being recognized directly by the Companies.

Report of Management

The Boards of Directors
Liberty Mutual Insurance Company
Liberty Mutual Fire Insurance Company
Employers Insurance Company of Wausau

The accompanying combined statutory financial statements and related information contained in this annual report are the responsibility of management and have been prepared in conformity with accounting practices prescribed or permitted by insurance regulatory authorities. These combined statutory financial statements include amounts that are based on management's estimates and judgments, particularly our reserves for losses and loss adjustment expenses. We believe that these combined statutory financial statements present fairly the Companies' financial position and results of operations and that other information contained in the annual report is consistent with the combined statutory financial statements.

We maintain and rely on a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and transactions are properly authorized and recorded. We continually monitor these internal accounting controls, modifying and improving them as business conditions and operations change. Our internal audit department also independently reviews and evaluates these controls. We believe our systems of internal accounting controls provide reasonable assurance that errors or irregularities that would be material to the combined statutory financial statements are prevented or detected in the normal course of business.

Our independent auditors, Ernst & Young LLP, have audited the combined statutory financial statements and expressed their opinion on the fairness of these combined statutory financial statements. Their audit provides an independent, objective review of our combined statutory financial statements. They review our internal controls and procedures, perform tests of accounting records and conduct other auditing procedures as they consider necessary to comply with auditing standards generally accepted in the United States.

The Audit Committee of the Board of Directors, comprised solely of outside directors, oversees management's discharge of its financial reporting responsibilities. The Audit Committee meets periodically with management, our internal auditors and representatives from Ernst & Young LLP to discuss auditing, financial reporting and internal control matters. Both our internal audit department and Ernst & Young LLP have access to the Audit Committee without management's presence.

Edmund F. Kelly

Edmund F. Kelly
Chairman, President and Chief Executive Officer

J. Paul Condrin, III
Senior Vice President and Chief Financial Officer

Report of Independent Auditors

The Boards of Directors
Liberty Mutual Insurance Company
Liberty Mutual Fire Insurance Company
Employers Insurance Company of Wausau

We have audited the accompanying combined statutory balance sheets of Liberty Mutual Insurance Companies (the Companies) as of December 31, 2001 and 2000, and the related combined statutory statements of income, changes in statutory surplus, and cash flow for the years then ended. These financial statements are the responsibility of the Companies' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the Companies present their financial statements in conformity with accounting practices prescribed or permitted by the insurance departments of the states in which the individual companies are domiciled, which practices differ from accounting principles generally accepted in the United States. The variances between such practices and accounting principles generally accepted in the United States also are described in Note 1.

In our opinion, because of the effects of the matter described in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States, the combined financial position of Liberty Mutual Insurance Companies at December 31, 2001 and 2000, or the combined results of their operations or their cash flows for the years then ended.

However, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of Liberty Mutual Insurance Companies at December 31, 2001 and 2000, and the combined results of their operations and their cash flows for the years then ended in conformity with accounting practices prescribed or permitted by the insurance departments of the states in which the individual companies are domiciled.

As discussed in Note 1 to the financial statements, in 2001 the Companies changed various accounting policies to be in accordance with the revised NAIC Accounting Practices and Procedures Manual, as adopted by the insurance departments of the states in which the individual companies are domiciled.

Boston, Massachusetts
February 15, 2002

Ernst & Young LLP

Board of Directors: Liberty Mutual Holding Company Inc.

Michael J. Babcock
Private Investor
Vero Beach, Florida

Gary C. Butler
President and Chief Operating Officer
Automatic Data Processing, Inc.
Roseland, New Jersey

Charles I. Clough, Jr.
Chairman and Chief Executive Officer
Clough Capital Partners, LP
Boston, Massachusetts

Gary L. Countryman
Chairman Emeritus
Liberty Mutual Insurance Company
Liberty Mutual Fire Insurance Company
Boston, Massachusetts

Paul J. Darling, II
President and Chief Executive Officer
Corey Steel Company
Cicero, Illinois

John P. Hamill
Chairman and Chief Executive Officer
Sovereign Bank New England
Boston, Massachusetts

Marian L. Heard
President and Chief Executive Officer
United Way of Massachusetts Bay
Boston, Massachusetts

Edmund F. Kelly
Chairman, President and Chief
Executive Officer
Liberty Mutual Holding Company Inc.
Boston, Massachusetts

Thomas J. May
Chairman, President and
Chief Executive Officer
NSTAR
Boston, Massachusetts

Stephen F. Page
President and Chief Executive Officer
Otis Elevator Company
Farmington, Connecticut

Dr. Kenneth L. Rose
Vice Chairman and
Chief Executive Officer
Henkels & McCoy, Inc.
Blue Bell, Pennsylvania

Ellen A. Rudnick
Executive Director and Clinical
Professor, Entrepreneurship Program
University of Chicago
Graduate School of Business
Chicago, Illinois

Glenn P. Strehle
Treasurer Emeritus
Massachusetts Institute of Technology
Cambridge, Massachusetts

William C. Van Faasen
Chairman, President and
Chief Executive Officer
Blue Cross and Blue Shield of
Massachusetts, Inc.
Boston, Massachusetts

Corporate Officers: Liberty Mutual Holding Company Inc.

Edmund F. Kelly
Chairman, President and
Chief Executive Officer

John B. Conners
Executive Vice President

Gary R. Gregg
Executive Vice President

Roger L. Jean
Executive Vice President

Thomas C. Ramey
Executive Vice President

J. Paul Condrin III
Senior Vice President and
Chief Financial Officer

Terry L. Conner
Senior Vice President and
Chief Information Officer

A. Alexander Fontanes
Senior Vice President and
Chief Investment Officer

Christopher C. Mansfield
Senior Vice President and
General Counsel

Helen E.R. Sayles
Senior Vice President

Stephen G. Sullivan
Senior Vice President

Douglas M. Hodes
Vice President and Corporate Actuary

Dennis J. Langwell
Vice President and Comptroller

Dexter R. Legg
Vice President and Secretary

Operating Management: Liberty Mutual Insurance Company

Commercial Markets

Gary R. Gregg
Executive Vice President and Manager

Joseph A. Gilles
Executive Vice President
Administration

Business Market

John M. Collins
Chief Operating Officer

Geoffrey E. Hunt
Executive Vice President

Field Operations
Senior Vice Presidents and
Division General Managers

James D. Barrett

Robert J. Brautigam

Thomas P. Coyne

James A. Dupont

Bryan M. Grimm

David Radakovich

Thomas R. Rudder, Jr.

Timothy J. Rose

John M. Ruane, Jr.

E. Janney Wilson

National Market

David H. Long
Chief Operating Officer

Mark A. Butler
Executive Vice President and
Regional General Manager

Scott R. Isaacson
Executive Vice President and
Regional General Manager

Specialty Risks Market

Scott R. Goodby
Chief Operating Officer

Douglas M. Nelson
President
LMG Property

Dennis S. Perler
President
Liberty Bond Services

Group Market

Jean M. Scarrow
Chief Operating Officer

Wausau Commercial Market

James J. McIntyre
Chief Operating Officer

Personal Market

John B. Conners
Executive Vice President and Manager

Regional Vice Presidents

Lewis R. Ayers

Donald O. Burns

Richard M. Evans

Thomas M. Jones

Maureen E. Lyden

James T. Masterson

Michael J. Mott

Vaughn R. Surprenant

Individual Life Market

John A. Tymochko
Chief Operating Officer

International

Thomas C. Ramey
President
Liberty International

Joseph H. Hamilton
Chief Operating Officer
Europe

Peter Lin
Chief Operating Officer
Asia

James T. McCarty
Chief Operating Officer
Latin America

Gordon J. McBurney
President
Liberty International Underwriters

Gery J. Barry
President
Liberty Health
Canada

Luis Bonell
President
Liberty Seguros
Spain

Mauricio Garcia
President
Liberty Seguros SA
Colombia

S.F. Leow
Managing Director
Liberty Citystate Insurance PTE, Ltd.
Hong Kong/Singapore

Robert L. Martin
President
Narai International Insurance
Thailand

Victor A. Meintjes
President
Seguros Caracas de Liberty Mutual
Venezuela

Basilio Pugatchenko
President
Liberty ART SA and Liberty Seguros
Argentina

Luciano Suzuki
President
Liberty Paulista Seguros
Brazil

Regional Agency Markets

Roger L. Jean
President

Mark Fiebrink
Executive Vice President

Richard T. Bell
President and Chief Executive Officer
Indiana Insurance Company

Michael R. Christiansen
President and Chief Executive Officer
Peerless Insurance Company

Donald E. Frette
President and Chief Executive Officer
Colorado Casualty Insurance Company

Steven A. Fulwood
President and Chief Executive Officer
Montgomery Mutual Insurance Company

Ricky T. Hodges
President and Chief Executive Officer
Summit Holding Southeast, Inc.

Frank J. Kotarba
President and Chief Executive Officer
Golden Eagle Insurance Corporation

John C. Robinson
President and Chief Executive Officer
GoAmerica Auto Insurance

CALIFORNIA (Northern)

Michael J. Bodell
President and Chief Executive Officer
Bodell Construction Company
Salt Lake City, Utah

James C. Champion
Chairman of the Board
Champion Industrial Contractors
Modesto, California

William H. Child
President and Chief Executive Officer
R. C. Willey Home Furnishings Inc.
Salt Lake City, Utah

Robert C. Cookson
President and Chief Executive Officer
The Cookson Company Inc.
Phoenix, Arizona

Ronald M. Fedrick
President, Owner and Chief
Executive Officer
NOVA Group
Napa, California

Herman G. Rowland, Sr.
Chairman of the Board
Herman Goelitz Candy Company, Inc.
Fairfield, California

John J. Thul
President
Arizona Precision Sheet Metal
Phoenix, Arizona

CALIFORNIA (Southern)

Rod Barham
Chief Executive Officer
HDOS Enterprises
Carlsbad, California

Harold C. Bennett
President
Utility Trailer Manufacturing Company
City of Industry, California

Robert A. Curry
President
California Cartage Co., Inc.
Long Beach, California

Robert Myerson
Chairman
Ben Myerson Candy Corporation
Los Angeles, California

Anthony P. Souza
President
MPA, Inc.
Torrance, California

Frank S. Wyle
Founder and Chairman
Wyle Electronics
El Segundo, California

DELAWARE

Richard S. Barr
President
Barr International, Inc.
Salisbury, Maryland

John S. Bonk
President
M. Davis & Sons, Inc.
Wilmington, Delaware

Eugene M. Julian
President
Eastern States Construction
Service, Inc.
Wilmington, Delaware

Alan B. Levin
Chairman, President and
Chief Executive Officer
Happy Harry's, Inc.
Newark, Delaware

William C. Robertson, Jr.
President
PENCO Corporation
Seaford, Delaware

P. Coleman Townsend, Jr.
Chairman and Chief Executive Officer
Townsends, Inc.
Wilmington, Delaware

FLORIDA

Richard W. Ebsary
President
Ebsary Foundation Company, Inc.
Miami, Florida

Robert A. Lopez
President
General Asphalt Company, Inc.
Miami, Florida

Eugene McNichols
President
McNichols Company
Tampa, Florida

Martin E. Murphy
President and Chief Executive Officer
Murphy Construction Company, Inc.
West Palm Beach, Florida

Kenneth N. Schulz
President
Polk Nursery Company, Inc.
Auburndale, Florida

Charles W. Stiefel
President
Stiefel Laboratories, Inc.
Coral Gables, Florida

Kenneth N. Trask
President and Chief Executive Officer
Conshor, Inc.
Bonita Springs, Florida

GEORGIA

Edward M. Abrams
Chairman of the Board
Abrams Industries, Inc.
Atlanta, Georgia

Fred Keith
President
Atlanta Bonded Warehouse
Corporation
Kennesaw, Georgia

Howell W. Newton
President
Trio Manufacturing Company
Forsyth, Georgia

William (Pete) W. Scogin, Jr.
President
Stasco Mechanical Contractors, Inc.
Marietta, Georgia

Robert P. Shapard, III
President
American Knitting Mills
Griffin, Georgia

INDIANA

Robert R. Baylor
President
Baylor Trucking, Inc.
Milan, Indiana

Mike Mount
President
Mount Trucking, Inc.
Columbus, Indiana

Daniel J. O'Malia
President
O'Malia Food Markets, Inc.
Carmel, Indiana

Dean W. Pfister
Former Secretary
Franklin Electric Company
Ft. Wayne, Indiana

J. Douglas Reeves
President
Reeves Management Services, Inc.
Knightstown, Indiana

Terry L. Tucker
Chairman, President and
Chief Executive Officer
Maple Leaf Farms, Inc.
Milford, Indiana

KENTUCKY

P. Jack Apple
President
Cummins Cumberland, Inc.
Louisville, Kentucky

Robert W. Byrd
Chairman of the Board of Directors
The Keller Manufacturing Co., Inc.
Corydon, Indiana

Don C. Haas
President
Haas Cabinet Co., Inc.
Sellersburg, Indiana

William H. Harrison, Jr.
President
Number Fourteen Corporation
Louisville, Kentucky

Fred J. Merrick, Sr.
Chief Executive Officer and President
Multi-Industries, Incorporated
Louisville, Kentucky

Thomas C. Nugent, III
President
Nugent Sand Company
Louisville, Kentucky

Robert G. Pfeiffer
Chairman of the Board and
Chief Executive Officer
Neill-LaVielle Supply Co.
Louisville, Kentucky

MARYLAND

Wayne Gaumer
President
Lightning Transportation
Hagerstown, Maryland

Michael E. Holupka
Partner
The Anderson Company, LLC
Manassas, Virginia

Joseph A. Hunt
President
Westat, Inc.
Rockville, Maryland

T. Kenneth Joy
President
B. Frank Joy Company, Inc.
Hyattsville, Maryland

Ernest D. Levering
President
Ramsay, Scarlett & Co., Inc.
Baltimore, Maryland

Carl A. Ressa
President
A. S. Johnson Company, Inc.
Forestville, Maryland

Craig M. Smith
Principal
The Creaney & Smith Group
Baltimore, Maryland

MASSACHUSETTS

Ara Aykanian
Former Chairman and
Chief Executive Officer
Boston Digital Corporation
Framingham, Massachusetts

Salvatore A. Balsamo
Chairman and Chief Executive Officer
Technical Aid Corporation d/b/a TAC
Worldwide Company
Dedham, Massachusetts

Michael F. Foley
President
M. F. Foley, Inc.
New Bedford, Massachusetts

Wayne J. Griffin
President
Wayne J. Griffin Electric Inc.
Holliston, Massachusetts

Benjamin D. Harrington
Chief Executive Officer and Treasurer
H. P. Cummings Construction
Company, Inc.
Ware, Massachusetts

Charles B. Housen
Chairman, President and
Chief Executive Officer
Erving Industries, Inc.
Erving, Massachusetts

Denis Keaveny
President and Chief Executive Officer
Cains Foods LP
Ayer, Massachusetts

Robert M. Kennedy
Executive Vice President and
Treasurer
Kennedy Die Castings, Inc.
Worcester, Massachusetts

Daniel G. Larson
President
Larson Tool & Stamping Company
Attleboro, Massachusetts

Michael J. McDougall
Senior Partner
McDougall Fine Arts Galleries
Gloucester, Massachusetts

Edward O. Owens
President
Henry F. Owens, Inc.
Everett, Massachusetts

Alfred J. Pandiani
Treasurer
National Glass Works, Inc.
Worcester, Massachusetts

James Zampell
President and Chief Executive Officer
Zampell Refractories, Inc.
Newburyport, Massachusetts

MICHIGAN

Jeffrey A. Coolsaet
President
R. L. Coolsaet Construction Company
Taylor, Michigan

Fred H. May
President and Chief Executive Officer
Saginaw Control & Engineering, Inc.
Saginaw, Michigan

Jeffrey S. Padnos
President
Louis Padnos Iron & Metal Company
Holland, Michigan

Joseph Schneider
President
Madison Electric Company/Standard
Electric Company
Warren, Michigan

Dr. Carl I. Schwartz
Chief Executive Officer
Plastics Research Corporation
Flint, Michigan

Charles A. Van Zoeren
Chairman of the Board and Chief
Executive Officer
Alvan Motor Freight, Inc.
Kalamazoo, Michigan

MIDDLE WEST

Wayne E. Baum
President
Combined Construction Group, Ltd.
Morton, Illinois

William J. Darley
CEO and Chairman of the Board
William S. Darley & Company
Melrose Park, Illinois

Paul J. Darling, II
President and Chief Executive Officer
Corey Steel Company
Chicago, Illinois

Alfred F. Krumholz, Jr.
President
Chicago Boiler Company
Gurnee, Illinois

Joseph A. Pycz III
President
Krupp Gerlach Company
Danville, Illinois

MINNESOTA

John S. Elder
President
Elder Jones, Inc.
Bloomington, Minnesota

Ralph E. Gross
President
SPS Companies, Inc.
Minneapolis, Minnesota

John W. Lettmann
President and Chief Executive Officer
Malt-O-Meal Company
Minneapolis, Minnesota

Reid V. MacDonald
President
Faribault Foods, Inc.
Minneapolis, Minnesota

Brian Mathiowetz
President
Mathiowetz Construction Company
Sleepy Eye, Minnesota

Gary B. Sauer
President
Tiller Corporation
Maple Grove, Minnesota

MISSOURI

Roy L. Burns
President and Chief Executive Officer
Lionmark Construction Companies
St. Louis, Missouri

Joseph Burstein
Chairman of the Board
Leonard's Metal, Inc.
Creve Coeur, Missouri

George B. Desloge
Co-Chairman of the Board
Watlow Electric Manufacturing
Company, Inc.
St. Louis, Missouri

Todd J. Korte
President
Korte Construction Company
Highland, Illinois

Thom Kuhn
EVP and Chief Administrative Officer
MBK Enterprises, Inc.
St. Louis, Missouri

Scott W. Meader
President and Chief Executive Officer
Milnot Holding Corporation
St. Louis, Missouri

Zsolt Rumy
Chairman, CEO and President
Zoltek Companies, Inc.
St. Louis, Missouri

Clifford Shanfeld
President
National Auto Supply Company
East St. Louis, Illinois

NEW JERSEY

Candida C. Aversenti
President and Chief Operating Officer
General Magnaplate Corporation
Linden, New Jersey

Edward C. Hoeflich
Moorestown, New Jersey

Richard W. Kanter
President
Miller Construction Company
Jersey City, New Jersey

Theodore J. Reiss
President
Reiss Corporation
Englishtown, New Jersey

Richard C. Robinson
President
Adronics/Elrob Manufacturing Corp.
Cedar Grove, New Jersey

Thomas Rogers
President
Rogers Transfer, Inc.
Great Meadows, New Jersey

Allan Weissglass
President
Magruder Color Company, Inc.
Elizabeth, New Jersey

NEW YORK

Lawrence N. Cohen
Management Consulting
LN Cohen & Associates
Jupiter, Florida

Richard G. Kirschner
Chief Operating Officer
Jetro Cash & Carry
College Point, New York

William G. Murphy
Vice President
Halmar Contracting Inc.
Newburgh, New York

Ira Salzman
President
Slomins, Inc.
Hicksville, New York

Howard E. Wallack
President and Chief Executive Officer
Jonrob Leasing Corp.
Park City, Utah

Ronald A. Yakin
President
American Pecco Corporation
Millwood, New York

NEW YORK STATE

Richard A. Cognetti
President
Kinney Drugs, Inc.
Gouverneur, New York

Paul J. DeCarolis
President
DeCarolis Truck Rental, Inc.
Rochester, New York

Michael Dranichak
Acting CEO
L&B Contracting Industries, Inc.
Menands, New York

Frederic J. Durkin
Chairman of the Board
Transportation Consultants, Inc.
Minoa, New York

Marianne W. Gaige
President and COO
Cathedral Corporation
Rome, New York

Kirk B. Hinman
President
Rome Strip Steel Co., Inc.
Rome, New York

Peter V. McGinn, Ph.D.
President and Chief Executive Officer
United Health Services, Inc.
Binghamton, New York

NORTH CAROLINA

Jerome W. Bolick
President
Southern Furniture Company
of Conover, Inc.
Conover, North Carolina

J. M. Carstarphen, III
President, Chief Executive Officer and
Chairman of the Board
Stowe-Pharr Mills
McAdenville, North Carolina

Otis A. Crowder
President and Chief Executive Officer
Crowder Construction Company
Charlotte, North Carolina

Ron E. Doggett
Former Chairman and
Chief Executive Officer
GoodMark Foods, Inc.
Raleigh, North Carolina

Edward P. Schrum
President, Chief Executive Officer
and Treasurer
Carolina Mills, Inc.
Maiden, North Carolina

Parks C. Underdown, Jr.
Chairman, Board of Directors
Hickory Springs Manufacturing Co.
Hickory, North Carolina

NORTHERN NEW ENGLAND

Robert N. Bass
Former President, CEO and Chairman
G.H. Bass and Company
Cumberland Foreside, Maine

Michael Dolan, Jr.
President
Busy Bee Janitorial Service
Somersworth, New Hampshire

Alvin D. Felgar
Chief Executive Officer
Frisbee Memorial Hospital
Rochester, New Hampshire

Jon Gregory
President
Quarry Division Rock of Ages
Corporation
Northfield, Vermont

Robert L. Gustafson
President
Thompson Center Arms
Rochester, New Hampshire

William R. Lochhead
President and General Manager
Lochhead Realty Company, Inc.
Nashua, New Hampshire

Barry E. Pottle
President
Pottle's Transportation, Inc.
Bangor, Maine

William D. Purington
President
Maine Drill and Blasting
Gardiner, Maine

Thomas Hedley Reynolds
Former President
University of New England,
Biddeford, Maine

Alvan A. Traffie
President
Hutter Construction Corporation
New Ipswich, New Hampshire

OHIO

Robert E. Alspaugh
President
SCT Corporation
Cleveland, Ohio

Bruce C. Gilbert
Chairman
Great Lakes Construction Company
Hinckley, Ohio

David W. Hackbirth
President
Business Concepts, Inc.
Akron, Ohio

Jon E. Jenson
President
Precision Metalforming Association
Independence, Ohio

Jefferson W. Keener Jr.
President
The Chardon Rubber Company
Chardon, Ohio

Lee R. Radcliffe
President
Jefferson Trucking Co.
Lorain, Ohio

PENNSYLVANIA

T. Roderick Henkels
Chief Operating Officer
Henkels & McCoy, Inc.
Blue Bell, Pennsylvania

William F. MacDonald, Jr.
President and Chairman of the Board
Houghton International, Inc.
Valley Forge, Pennsylvania

Ray B. Mundt
Former Chairman and CEO
Unisource Worldwide, Inc.
Rosemont, Pennsylvania

Robert W. Palaima
President
Delaware River Stevedores, Inc.
Philadelphia, Pennsylvania

Leo Pasini
President and Chief Operating Officer
Fisher Tank Company
Chester, Pennsylvania

John W. Rex
President
Rex Heat Treat
Lansdale, Pennsylvania

Henry L. Rosenberger
Chairman and Chief Executive Officer
Rosenberger Companies LTD.
Blooming Glen, Pennsylvania

PITTSBURGH

Richard L. Carrara
President
Amthor Steel
Erie, Pennsylvania

Lee B. Foster, II
President and Chief Executive Officer
L.B. Foster Company
Pittsburgh, Pennsylvania

Lee G. Hooper
President
Sharon Tube Company
Sharon, Pennsylvania

Dr. Charles J. Hora, Jr.
President
Lord Corporation
Cary, North Carolina

Robert A. Paul
President and Chief Executive Officer
Ampco-Pittsburgh Corporation
Pittsburgh, Pennsylvania

Steven B. Stein
Consultant
Pittsburgh, Pennsylvania

T. Philip Stout
President and Chief Executive Officer
Atlas Service Corporation
Washington, Pennsylvania

ROCKY MOUNTAIN

Demetrios C. Daskalos
President
Atlas Resources, Inc.
Albuquerque, New Mexico

Robert Millwee
President and Chief Executive Officer
Garney Companies, Inc.
Kansas City, Missouri

Edward Routzon
President
Guy's Floor Service, Inc.
Denver, Colorado

Wayne E. Simmonds
President and Chief Executive Officer
FBG Service Corporation
Omaha, Nebraska

Diemer True
Partner
True Oil Company
Casper, Wyoming

SOUTH CAROLINA

MacFarlane L. Cates, Jr.
President and Treasurer
Arkwright Mills
Spartanburg, South Carolina

Robert H. Chapman
President
Inman Mills
Inman, South Carolina

Frederick B. Dent, Jr.
President
Mayfair Mills, Inc.
Spartanburg, South Carolina

Peter E. Frohlich
Chief Executive Officer
Bommer Industries, Inc.
Landrum, South Carolina

H. Morgan Haskell
Former President and Treasurer
Brunswick Worsted Mills, Inc.
Hilton Head, South Carolina

William Lowndes, III
Chairman and Chief Executive Officer
Tindall Corporation
Spartanburg, South Carolina

Walter Scott Montgomery, Jr.
Chairman and Chief Executive Officer
Montgomery Industries, Inc.
Spartanburg, South Carolina

Richard H. Pennell
Chairman and Chief Executive Officer
Metromont Prestress Company
Greenville, South Carolina

Danny T. Phillips
President
J. Frank Blakely Company
Spartanburg, South Carolina

SOUTHERN NEW ENGLAND

Joseph Arborio
President
Arborio Corporation
Cromwell, Connecticut

Gordon M. Clark
Chief Executive Officer and Treasurer
The W.I. Clark Company/WICO
Aviation, Inc.
Wallingford, Connecticut

Harwood B. Comstock
President and Chief Executive Officer
Pratt-Read Corporation
Essex, Connecticut

Edward M. Crowley
President
Dichello Distributors, Inc.
Orange, Connecticut

Glen A. Harper
Chairman of the Board
The Waterbury Plating Company
Waterbury, Connecticut

Penfield Jarvis
President
Penco Corp./Jarvis Group
Hartford, Connecticut

Thomas F. Moore
Chairman
The Moore Company
Westerly, Rhode Island

Robert W. Parsons
President and Chief Executive Officer
A. H. Harris & Sons, Inc.
Newington, Connecticut

Daniel Sabia
President
BKM Enterprises, Inc.
East Hartford, Connecticut

David T. Shopis
President and Chief Executive Officer
The FIP Corporation
Cheshire, Connecticut

SOUTHWEST (NORTHERN)

James H. Alexander
President
Central Transportation Systems, Inc.
Waco, Texas

John B. Bartling
President and Chief Executive Officer
WMC Management Company
Addison, Texas

Timothy W. Byrne
President and Chief Executive Officer
United States Lime & Minerals, Inc.
Dallas, Texas

Jack P. Chapman
Owner
Doodle Bug Ranch, LTD
Odessa, Texas

L. Decker Dawson
President
Dawson Geophysical Company
Midland, Texas

G. Read Frymire
President and Chief Executive Officer
Frymire Engineering Co., Inc.
Dallas, Texas

Robert D. Gillikin
President
Cummins Southern Plains, Inc.
Arlington, Texas

A.H. "Chip" McElroy, II, PE
President and Chief Executive Officer
McElroy Manufacturing Inc.
Tulsa, Oklahoma

R. E. Roberts
Chairman
Entrada Corporation
Cleburne, Texas

Jerry D. Rohane
President
Western Builders of Amarillo, Inc.
Amarillo, Texas

SOUTHWEST (SOUTHERN)

Phyllis A. Adams
President
Phylway Construction Company, Inc.
Thibodaux, Louisiana

Robert C. Banks
Chairman
McKinney Drilling Company
Nacogdoches, Texas

Wallace Brasuell, P.E.
President and Chief Executive Officer
I.A. Naman + Associates, Inc.
Houston, Texas

Lloyd K. Davis
Investor
Lloyd K. Davis Interests
Houston, Texas

Terry W. Davis
Chairman and President
TD Rowe Amusements, Inc.
Houston, Texas

Dan A. Dill
President and Chief Operating Officer
Varmicon Industries
Harlingen, Texas

Jon G. Ford
President
Todd-Ford, Inc.
San Antonio, Texas

A. Bruce Gerhardt
President
Gerhardt's, Inc.
Jefferson, Louisiana

Jack M. Introligator
Vice President
Plant & Machinery, Inc.
Houston, Texas

Leonard N. Martin
Chairman of the Board
Mustang Tractor & Equipment
Company
Houston, Texas

Mark T. Scully
President
T.A.S. Commercial Concrete
Construction LP
Spring, Texas

TENNESSEE

Gregory D. Brown
President
B.R. Williams Trucking
Oxford, Alabama

Stanley K. Dunbar
President and Chief Executive Officer
Moody Dunbar, Inc.
Johnson City, Tennessee

Whitney C. Keyt
Chairman of the Board and
Chief Executive Officer
Service Transport, Inc.
Cookeville, Tennessee

Robert W. Klyce
President and Chief Executive Officer
Car and Truck Rental, Inc.
Birmingham, Alabama

Paul A. Martin
Chairman of the Board and
Chief Executive Officer
DWC Construction Company, Inc.
Nashville, Tennessee

Leroy McAbee, Sr.
Chief Executive Officer
McAbee Construction, Inc.
Tuscaloosa, Alabama

William L. Schaff
President
The Mapes Piano String Company
Elizabethton, Tennessee

John E. Seward, Jr.
Chairman of the Board and
Chief Executive Officer
PLC, Inc.
Elizabethton, Tennessee

VIRGINIA

Frank Armstrong, III
Chairman and President
National Fruit Product Company Inc.
Winchester, Virginia

A. Douglas Dalton, Jr.
President and Chief Executive Officer
English Construction Co., Inc.
Lynchburg, Virginia

Hubert Jackson Deaton, III, P.E.
President
Schnabel Foundation Company
Sterling, Virginia

J. Spencer Frantz, Sr.
Vice Chairman
Graham-White Mfg. Company
Salem, Virginia

Henry S. Holland, III
Former President
The Cardwell Mackin Companies
Charlottesville, Virginia

James T. Holland
Former President
O'Sullivan Group
Winchester, Virginia

Lloyd U. Noland, III
Chairman and President
Noland Company
Newport News, Virginia

Harry G. Norris
President
Howell's Motor Freight, Inc.
Roanoke, Virginia

Edward J. Reed
President
Givens, Inc. and
Givens Trucking Co., Inc.
Chesapeake, Virginia

Robert H. Spilman
Former Chairman of the Board
Bassett Furniture Industries, Inc.
Bassett, Virginia

C. Kenneth Wright
Chairman of the Board
Basic Auto Sales, LP
Glen Allen, Virginia

WISCONSIN

Joseph A. Daniels
President
Joe Daniels Construction Co.
Madison, Wisconsin

Ronald Deabler
President
American Technical Services, Inc.
Brookfield, Wisconsin

Franklyn Esenberg
Chairman of the Board
Interstate Forging Industries, Inc.
Milwaukee, Wisconsin

William R. Sauey
Chairman of the Board
Nordic Group of Companies, Ltd.
Baraboo, Wisconsin

Robert Schaupp
President
P&S Investment Co., Inc.
Green Bay, Wisconsin

Michael E. Stroh
President
Stroh Die Casting Co., Inc.
Milwaukee, Wisconsin

William J. Troyk
President
Roadrunner Freight Systems, Inc.
Cudahy, Wisconsin

William J. Webster
Chairman of the Board
Crescent Woolen Mills Company
Two Rivers, Wisconsin

annual meeting:

Liberty Mutual Holding Company Inc. holds its annual meeting on the second Wednesday of April at 10 a.m. at the headquarters in Boston.

Policyholders of Liberty Mutual Insurance Company (a stock insurance company), Liberty Mutual Fire Insurance Company (a stock insurance company) and Employers Insurance Company of Wausau (a stock insurance company) are members of Liberty Mutual Holding Company Inc. If you are a policyholder of any one of these entities at the time of such meetings, you are entitled to vote, either in person or by proxy. You may obtain a proxy form by writing to the Secretary of Liberty Mutual Holding Company Inc. at 175 Berkeley Street, Boston, MA 02117.

175 Berkeley Street, Boston, MA 02117

www.libertymutual.com