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SPELLMAN

Melvin N. Sorensen

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August 1, 2008

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INSURANCE COMMISSIONER
COMPANY SUPERVISION

Mr. Ron Pastuch
Holding Company Manager
Washington State Office of the Insurance Commissioner
Company Supervision Division
5000 Capitol Blvd.
P.O. Box 40255
Tumwater, WA 98512

Re: Amendment to Form A Statement

Dear Mr. Pastuch:

Attached for your review is Amendment No. 1 to the Form A Statement regarding the proposed acquisition of First National Insurance Company of America, General Insurance Company of America, Safeco Insurance Company of America, Safeco Surplus Lines Insurance Company of America, and Safeco Corporation by Liberty Mutual Holding Company Inc. ("LMHC"), LMHC Massachusetts Holdings Inc. ("LMHC MA"), Liberty Mutual Group Inc. ("LMGI"), Liberty Mutual Insurance Company, Liberty Insurance Holdings, Inc. ("LIHI"), and LIH US P&C Corporation ("LIH US"). We are also submitting a legible version of Exhibit 3 to the Form A and the following exhibits:

Revised Exhibit 9-C. Financial Statements of LIHI for the Period Ended March 31, 2008 and for the Years Ended December 31, 2007, December 31, 2006, December 31, 2005, December 31, 2004, and December 31, 2003

Revised Exhibit 9-D. Financial Statements of LIH US for the Period Ended March 31, 2008 and for the Years Ended December 31, 2007, December 31, 2006, December 31, 2005, December 31, 2004, and December 31, 2003

Exhibit 9-E Financial Statements of LMGI for the Period Ended March 31, 2008, and for the Years Ended December 31, 2007, December 31, 2006, December 31, 2005, December 31, 2004, and December 31, 2003

Exhibit 9-F Financial Statements of LMHC MA for the Period Ended March 31, 2008, and for the Years Ended December 31, 2007, December 31, 2006, December 31, 2005, December 31, 2004, and December 31, 2003

Exhibit 9-G Consolidated Financial Statements of LMHC for the Period Ended June 30, 2008

Exhibit 9-H Audited Combined Statutory Basis Financial Statements of the Liberty Mutual Insurance Company Pool for the Years Ended December 31, 2007, December 31, 2006, December 31, 2005, December 31, 2004, and December 31, 2003.

Please do not hesitate to contact me with respect to any questions that you may have with respect to these materials.

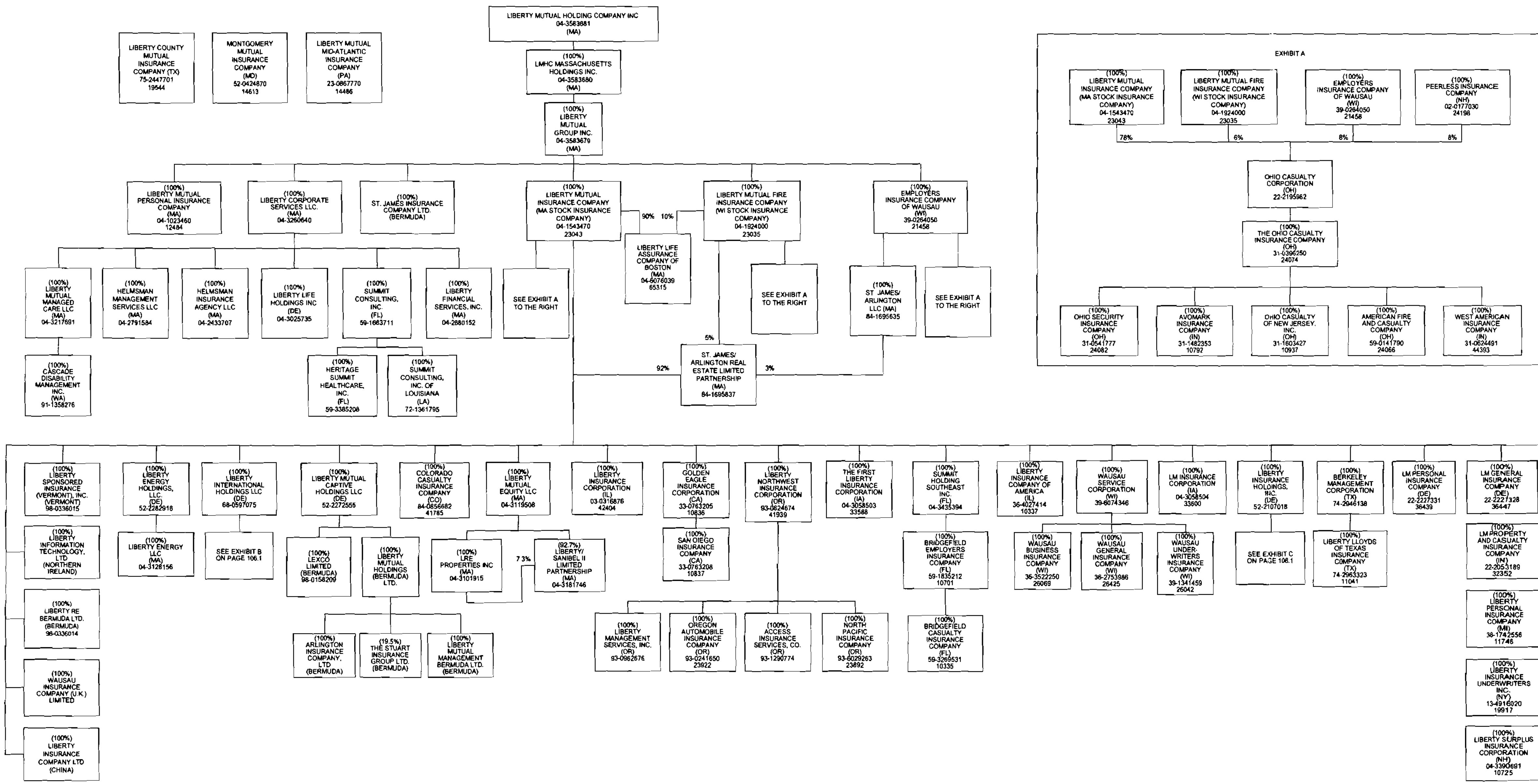
Sincerely,

CARNEY BADLEY SPELLMAN, P.S.

Mel S.

Melvin N. Sorensen

MNS:jc


LIBERTY MUTUAL HOLDING COMPANY INC 04-3583681 (MA)
LIBERTY COUNTY MUTUAL INSURANCE COMPANY (TX) 75-2447701 19544
MONTGOMERY MUTUAL INSURANCE COMPANY (MD) 52-0424870 14613
LIBERTY MUTUAL MID-ATLANTIC INSURANCE COMPANY (PA) 23-0867770 14486
(100%) LMHC MASSACHUSETTS HOLDINGS INC. 04-3583680 (MA)
(100%) LIBERTY MUTUAL GROUP INC. 04-3583679 (MA)
(100%) LIBERTY MUTUAL PERSONAL INSURANCE COMPANY (MA) 04-1023460 12484
(100%) LIBERTY CORPORATE SERVICES LLC. (MA) 04-3260640
(100%) ST. JAMES INSURANCE COMPANY LTD. (BERMUDA)
(100%) LIBERTY MUTUAL INSURANCE COMPANY (MA STOCK INSURANCE COMPANY) 04-1543470 23043
(100%) LIBERTY MUTUAL FIRE INSURANCE COMPANY (WI STOCK INSURANCE COMPANY) 04-1924000 23035
(100%) EMPLOYERS INSURANCE COMPANY OF WAUSAU (WI) 39-0264050 21458
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10%
LIBERTY LIFE ASSURANCE COMPANY OF BOSTON (MA) 04-6076039 65315
(100%) LIBERTY MUTUAL MANAGED CARE LLC (MA) 04-3217691
(100%) HELMSMAN MANAGEMENT SERVICES LLC (MA) 04-2791584
(100%) HELMSMAN INSURANCE AGENCY LLC (MA) 04-2433707
(100%) LIBERTY LIFE HOLDINGS INC (DE) 04-3025735
(100%) SUMMIT CONSULTING, INC. (FL) 59-1663711
(100%) LIBERTY FINANCIAL SERVICES, INC. (MA) 04-2680152
SEE EXHIBIT A TO THE RIGHT
SEE EXHIBIT A TO THE RIGHT
(100%) ST JAMES/ ARLINGTON LLC (MA) 84-1695635
SEE EXHIBIT A TO THE RIGHT
(100%) CASCADE DISABILITY MANAGEMENT INC. (WA) 91-1358276
(100%) HERITAGE SUMMIT HEALTHCARE, INC. (FL) 59-3385208
(100%) SUMMIT CONSULTING, INC. OF LOUISIANA (LA) 72-1361795
5%
92%
3%
ST. JAMES/ ARLINGTON REAL ESTATE LIMITED PARTNERSHIP (MA) 84-1695837
EXHIBIT A
(100%) LIBERTY MUTUAL INSURANCE COMPANY (MA STOCK INSURANCE COMPANY) 04-1543470 23043
(100%) LIBERTY MUTUAL FIRE INSURANCE COMPANY (WI STOCK INSURANCE COMPANY) 04-1924000 23035
(100%) EMPLOYERS INSURANCE COMPANY OF WAUSAU (WI) 39-0264050 21458
(100%) PEERLESS INSURANCE COMPANY (NH) 02-0177030 24198
78%
6%
8%
8%
OHIO CASUALTY CORPORATION (OH) 22-2195982
(100%) THE OHIO CASUALTY INSURANCE COMPANY (OH) 31-0396250 24074
(100%) OHIO SECURITY INSURANCE COMPANY (OH) 31-0541777 24082
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(100%) OHIO CASUALTY OF NEW JERSEY, INC. (OH) 31-1603427 10937
(100%) AMERICAN FIRE AND CASUALTY COMPANY (OH) 59-0141790 24066
(100%) WEST AMERICAN INSURANCE COMPANY (IN) 31-0624491 44393
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(100%) LIBERTY INFORMATION TECHNOLOGY, LTD (NORTHERN IRELAND)
(100%) LIBERTY RE BERMUDA LTD. (BERMUDA) 98-0336014
(100%) WAUSAU INSURANCE COMPANY (U.K.) LIMITED
(100%) LIBERTY INSURANCE COMPANY LTD (CHINA)
(100%) LIBERTY ENERGY HOLDINGS, LLC. (DE) 52-2282916
(100%) LIBERTY ENERGY LLC (MA) 04-3128156
(100%) LIBERTY INTERNATIONAL HOLDINGS LLC (DE) 68-0597075
SEE EXHIBIT B ON PAGE 106.1
(100%) LIBERTY MUTUAL CAPTIVE HOLDINGS LLC (DE) 52-2272555
(100%) LEXCO LIMITED (BERMUDA) 98-0158209
(100%) LIBERTY MUTUAL HOLDINGS (BERMUDA) LTD.
(100%) ARLINGTON INSURANCE COMPANY, LTD (BERMUDA)
(19.5%) THE STUART INSURANCE GROUP LTD. (BERMUDA)
(100%) LIBERTY MUTUAL MANAGEMENT BERMUDA LTD. (BERMUDA)
(100%) COLORADO CASUALTY INSURANCE COMPANY (CO) 84-0856682 41785
(100%) LIBERTY MUTUAL EQUITY LLC (MA) 04-3119508
(100%) LRE PROPERTIES INC (MA) 04-3101915
7.3%
(92.7%) LIBERTY/ SANIBEL II LIMITED PARTNERSHIP (MA) 04-3181746
(100%) LIBERTY INSURANCE CORPORATION (IL) 03-0316876 42404
(100%) GOLDEN EAGLE INSURANCE CORPORATION (CA) 33-0763205 10836
(100%) SAN DIEGO INSURANCE COMPANY (CA) 33-0763208 10837
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(100%) LIBERTY MANAGEMENT SERVICES, INC. (OR) 93-0962676
(100%) OREGON AUTOMOBILE INSURANCE COMPANY (OR) 93-0241650 23922
(100%) ACCESS INSURANCE SERVICES, CO. (OR) 93-1290774
(100%) NORTH PACIFIC INSURANCE COMPANY (OR) 93-6029263 23892
(100%) THE FIRST LIBERTY INSURANCE CORPORATION (IA) 04-3058503 33588
(100%) SUMMIT HOLDING SOUTHEAST INC. (FL) 04-3435394
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(100%) WAUSAU BUSINESS INSURANCE COMPANY (WI) 36-3522250 26069
(100%) WAUSAU GENERAL INSURANCE COMPANY (WI) 36-2753986 26425
(100%) WAUSAU UNDER-WRITERS INSURANCE COMPANY (WI) 39-1341459 26042
(100%) LM INSURANCE CORPORATION (IA) 04-3058504 33600
(100%) LIBERTY INSURANCE HOLDINGS, INC. (DE) 52-2107018
SEE EXHIBIT C ON PAGE 106.1
(100%) BERKELEY MANAGEMENT CORPORATION (TX) 74-2946138
(100%) LIBERTY LLOYDS OF TEXAS INSURANCE COMPANY (TX) 74-2963323 11041
(100%) LM PERSONAL INSURANCE COMPANY (DE) 22-2227331 36439
(100%) LM GENERAL INSURANCE COMPANY (DE) 22-2227328 36447
(100%) LM PROPERTY AND CASUALTY INSURANCE COMPANY (IN) 22-2053189 32352
(100%) LIBERTY PERSONAL INSURANCE COMPANY (MI) 38-1742556 11746
(100%) LIBERTY INSURANCE UNDERWRITERS INC. (NY) 13-4916020 19917
(100%) LIBERTY SURPLUS INSURANCE CORPORATION (NH) 04-3390691 10725

Exhibit B

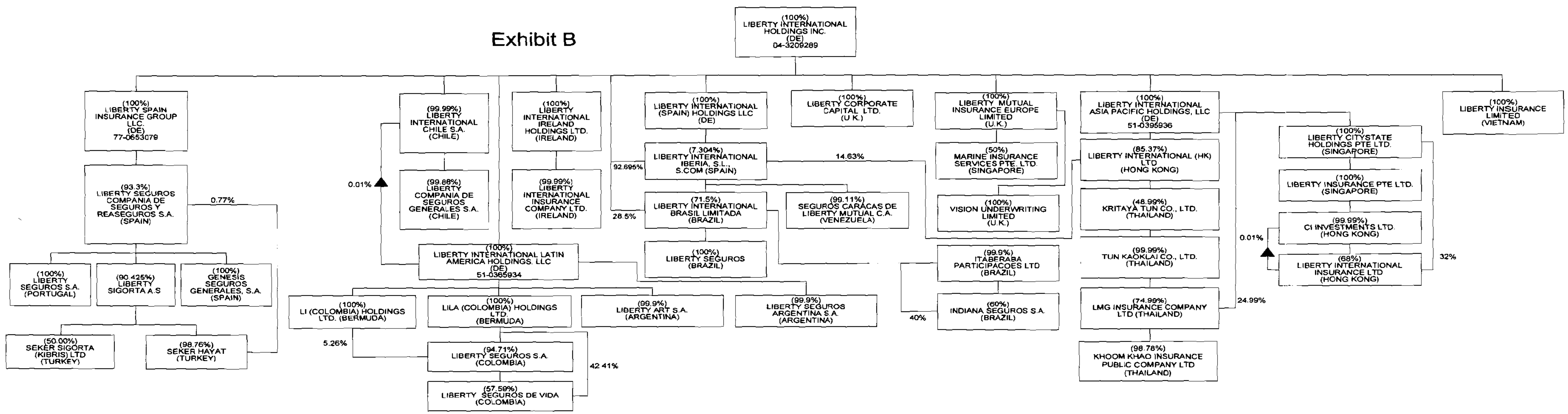
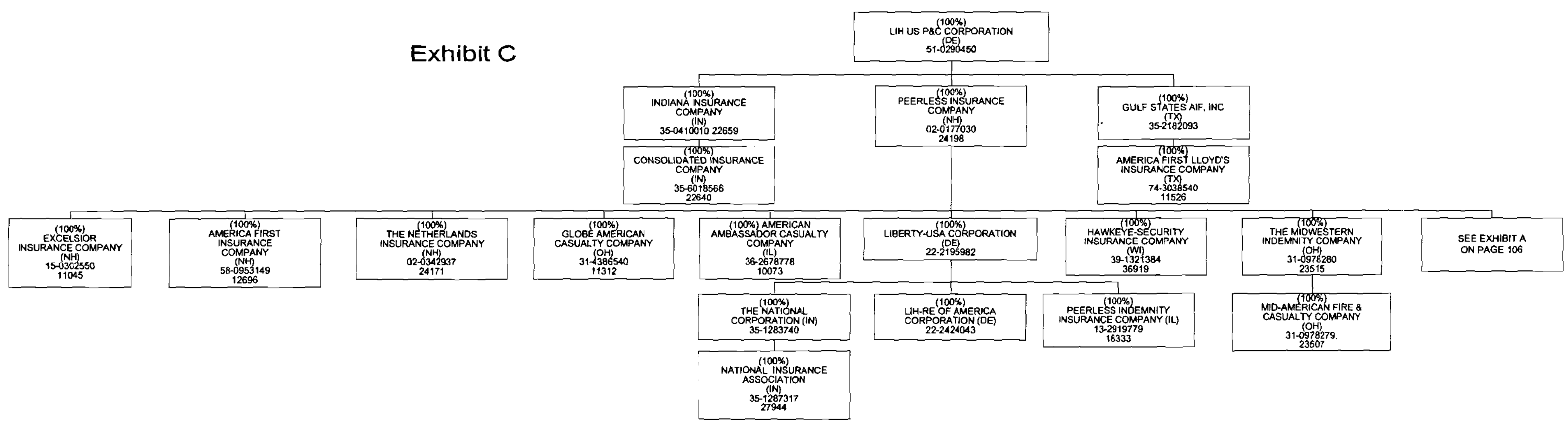


Exhibit C



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INSURANCE COMMISSIONER
COMPANY SUPERVISION

AMENDMENT NO. 1 TO THE FORM A

STATEMENT REGARDING THE PROPOSED ACQUISITION OF CONTROL OF

FIRST NATIONAL INSURANCE COMPANY OF AMERICA

GENERAL INSURANCE COMPANY OF AMERICA

SAFECO INSURANCE COMPANY OF AMERICA

SAFECO SURPLUS LINES INSURANCE COMPANY

(Names of Domestic Insurers) and

SAFECO CORPORATION

(Name of Corporation Ultimately Controlling Such Insurers)

By

LIBERTY MUTUAL HOLDING COMPANY INC.

LMHC MASSACHUSETTS HOLDINGS INC.

LIBERTY MUTUAL GROUP INC.

LIBERTY MUTUAL INSURANCE COMPANY

LIBERTY INSURANCE HOLDINGS, INC.

LIH US P&C CORPORATION

(Names of Acquiring Parties)

Filed with the Washington State Office of the Insurance Commissioner

Dated: August 1, 2008

Name, title, address and telephone number of individuals to whom notices and correspondence concerning this statement should be addressed:

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Senior Vice President and Deputy General Counsel
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Telephone: (617) 574-5655
Facsimile: (617) 574-5830
Email: richard.quinlan@libertymutual.com

and

Melvin N. Sorensen, Esq.
Timothy J. Parker, Esq.
Carney Badley Spellman, P.S.
701 Fifth Avenue
Suite 3600
Seattle, Washington 98104-7010
Telephone: (206) 622-8020
Email: sorensen@carneylaw.com

ITEM 1. **DOMESTIC INSURERS AND METHOD OF ACQUISITION**

No change

ITEM 2. **IDENTITY AND BACKGROUND OF THE ACQUIRING PARTIES**

The Acquiring Parties wish to strike, in its entirety, the text appearing in Item 2 of the Statement as filed on May 16, 2008, and replace it with the following text:

(a) The Acquiring Parties

The names and main administrative office addresses of the Acquiring Parties are as follows:

Liberty Mutual Holding Company Inc.
LMHC Massachusetts Holdings Inc.
Liberty Mutual Group Inc.
Liberty Mutual Insurance Company
Liberty Insurance Holdings, Inc.
LIH US P&C Corporation
175 Berkeley Street
Boston, MA 02117-0140

(b) The Acquiring Parties' Business Operations

Organization and Business Operations of the Acquiring Parties

The Liberty Mutual Group of Companies (the "Group") is a diversified international group of insurance companies and the sixth largest property and casualty insurer, the eighth largest personal lines writer, and the fourth largest commercial lines writer in the United States, based on 2007 direct written premium. As of December 31, 2007, the Group had approximately $94.7 billion in consolidated assets, $82.4 billion in consolidated liabilities, and $26.0 billion in annual consolidated revenue.[1] The Group currently ranks 94th on the Fortune 500 list of largest corporations in the United States. Unless expressly limited to some other specified date or time period, this Item 2(b) describes the organization and business operations of each of the Acquiring Parties during the past five years.

In 2001 and 2002, the Group reorganized into a mutual holding company structure. The three principal mutual companies of the group, LMIC, LMFIC and EICOW, each

[1] The consolidated financial statements of LMHC have been prepared in conformity with accounting principles generally accepted in the United States, commonly known as "GAAP."

became separate stock insurance companies under the indirect ownership of LMHC. This structure provides the Group with better capital market access and greater strategic flexibility to pursue acquisitions and alliances, while aligning its legal structure with its operating structure and preserving mutuality.

The Group offers a wide range of insurance products and services, including private passenger automobile, workers' compensation, homeowners, commercial multiple peril/fire, international local businesses, commercial automobile, Liberty International Underwriters ("LIU") reinsurance, general liability, LIU inland marine program, LIU third party, group disability and life, surety/fidelity, LIU first party, individual life and assumed voluntary reinsurance.

The Group's business is supported by diversified and well-established multi-channel distribution capabilities. In addition to direct sales distribution, the Group also distributes products and services through independent agents and brokers, employer and affinity groups, marketing alliances, direct response call centers and the Internet. The Group believes that this multi-channel distribution strategy permits potential customers to access the Company's full product portfolio through the channel of their choice.

Functionally, the Group conducts its business through four strategic business units ("SBUs"): Personal Markets, Commercial Markets, Agency Markets and International. Each SBU operates independently of the others and has dedicated sales, underwriting, claims, actuarial, financial and information technology resources. Management believes this structure allows each SBU to execute its business and acquisition strategy without impacting or disrupting the operations of the Group's other business units.

Personal Markets. Personal Markets is the ninth largest writer of personal lines property and casualty insurance in the United States, based on 2007 direct written premium, writing virtually all types of property and casualty insurance covering personal risks as well as a wide range of traditional and variable life insurance and annuity products. The Personal Markets business unit distributes through approximately 1,800 licensed captive sales representatives, approximately 500 licensed direct response sales counselors, approximately 1,050 licensed life insurance agents affiliated with Prudential Financial, Inc., and the Internet. Personal Markets' largest source of new business is through its more than 10,800 sponsored affinity groups (such as employers, credit unions, professional associations and alumni associations). Personal Markets' coverages are primarily personal automobile and homeowners.

Commercial Markets. Commercial Markets is the eighth largest writer of commercial lines insurance in the United States, based on 2007 direct written premium. It distributes through a variety of distribution channels, including direct sales force, brokers and consultants. The Commercial Markets business unit is organized into separate marketing and underwriting groups, each of which focuses on a particular customer base, product grouping or distribution channel to provide tailored products and services that specifically address customers' needs. The Commercial Markets coverages include workers' compensation, commercial automobile, general liability (including product liability), group disability and life, commercial multiple peril and fire, assumed voluntary reinsurance, and a variety of other coverages. The Company is also a servicing carrier for workers' compensation and commercial automobile involuntary market pools.

Agency Markets. Agency Markets consists of property and casualty, and specialty insurance companies distributing products and services primarily through independent agents throughout the United States. It is one of the ten largest independent agency writers in the United States based on 2007 direct written premium. Through eight regional insurance companies, Agency Markets combines and leverages the strengths of a locally-branded, service-oriented regional presence with the cost efficiencies of a national organization, providing coverages to small businesses and individuals. Agency Markets also includes the specialty operations of Summit, which provides workers' compensation in the Southeast (primarily Florida), and the Specialty Products Group, which provides nationwide contract and commercial surety and fidelity bonds as well as excess casualty coverage.

International. International provides insurance products and services through two distinct approaches: local businesses, which sell personal and commercial lines products in specified countries, and LIU, which sells specialty commercial lines insurance and reinsurance through broker networks worldwide. International's local business operations consist of local insurance company operations selling traditional property, casualty and life insurance products to individuals and small businesses in countries with a large and growing middle class. Private passenger automobile insurance is the predominant line of business. In South America, the Company operates in Venezuela, Argentina, Colombia, Brazil and Chile. In Asia, International writes business in Singapore, Thailand, Vietnam and China (including Hong Kong). In Europe, the Company operates in Spain, Portugal, Poland and Turkey. LIU writes casualty, specialty casualty, marine, energy, engineering, construction and aviation coverages through offices in Asia, Australia, Europe, the Middle East and North America. Another component of LIU is Lloyd's Syndicate 4472, which provides multi-line insurance and reinsurance, including property catastrophe reinsurance, on a worldwide basis.

Following the Proposed Acquisition, the Group expects to continue to pursue its current strategic objectives and expects that the business of the Acquired Companies, as part of the Agency Markets SBU, will complement these objectives. LMHC and its affiliates have a proven record of acquiring and integrating other property and casualty businesses. Attached hereto as Exhibit 3-A is a list of all acquisitions and dispositions of control by the Acquiring Parties in the last 5 years and details of any subsequent material change in the financial condition, management or operations of such other person.

The following chart shows the organizational structure of the Acquiring Parties LMHC, LMHC MA, LMGI, LMIC, LIHI and LIH US:

Liberty Mutual Holding Company Inc.

LMHC Massachusetts Holdings Inc.

Liberty Mutual Group Inc.

Liberty Mutual Insurance Company

Liberty Insurance Holdings Inc.

LIH US P&C Corporation

(i) **LMHC**. LMHC, a Massachusetts mutual holding company, was formed in 2001 as part of the mutual holding company reorganization of LMIC. LMHC is the ultimate parent company of the Group. LMHC will not be a direct purchaser of Safeco. Its status as an Acquiring Party arises solely out of its status as an entity being in control of the Purchasers. The only material asset of LMHC is its shares of LMHC MA.

(ii) **LMHC MA**. LMHC MA, a Massachusetts stock holding company, was also formed in 2001 as part of LMIC's mutual holding company reorganization. LMHC MA is a direct wholly-owned subsidiary of LMHC. LMHC MA will not be a direct purchaser of Safeco. Its status as an Acquiring Party arises solely out of its status as an entity being in control of the Purchasers. The only material asset of LMHC MA is its shares of LMGI.

(iii) **LMGI**. LMGI, a Massachusetts stock holding company, was also formed in 2001 as part of LMIC's mutual holding company reorganization. LMGI is a direct wholly-owned subsidiary of LMHC MA. LMGI will not be a direct purchaser of Safeco. Its status as an Acquiring Party arises solely out of its status as an entity being in control of the Purchasers. LMGI is the primary company used to raise capital through debt and commercial paper offerings for the Group. As the holding company for the primary insurance subsidiaries, its obligations also include various employee benefit plans. LMGI principally does business through its wholly-owned subsidiaries.

(iv) **LMIC**. LMIC, a Massachusetts stock insurance company, was formed in 1912. LMIC is a direct wholly-owned subsidiary of LMGI._LMIC will not be a direct purchaser of Safeco. Its status as an Acquiring Party arises solely out of its status as an entity being in control of LIH US. LMIC is the largest insurance company of the Group based on 2007 direct written premium.

(v) **LIHI**. LIHI, a Delaware corporation, was acquired by Liberty Mutual Group in 1999. LIHI is a direct, wholly-owned subsidiary of LMIC. As indicated above, it is expected that at some point prior to the effective time of the Merger, LIHI will be owned approximately 93% by LMIC, 4% EICOW and 3% by LMFIC. LIHI will not be a direct purchaser of Safeco. Its status as an Acquiring Party arises solely out of its status as an entity being in control of LIH US. The only material asset of LIHI is its shares of LIH US.

(vi) **LIH US**. LIH US, a Delaware corporation, was acquired by the Liberty Mutual Group in 1999. LIH US is a direct, wholly-owned subsidiary of LIHI. LIH US will be the direct purchaser of Safeco. The only material asset of LIH US is its investment in its subsidiaries.

The policyholders of the Acquired Companies stand to benefit from LMHC and its affiliates' commitment to property and casualty insurance and their customer service expertise. For a more detailed description of the Acquiring Parties' future plans with respect to the Insurers, please see the discussion in Item 5 of this Statement.

(c) Organizational Chart

Exhibit 3-B to this Statement is a chart presenting the identities of, and interrelationships among, the Acquiring Parties and all persons known to control or to be controlled by or under common control with the Acquiring Parties. Such chart indicates the percentage of voting securities of each such person that is owned or controlled by the Acquiring Parties or by any other such person. Unless otherwise indicated, each person is a corporation and control of such person is maintained by the ownership or control of voting securities. Such chart indicates the jurisdiction of domicile of each person specified therein. No court proceedings looking toward a reorganization or liquidation are pending with respect to any such person.

ITEM 3. IDENTITY AND BACKGROUND OF INDIVIDUALS ASSOCIATED WITH THE ACQUIRING PARTIES

No change

ITEM 4. NATURE, SOURCE AND AMOUNT OF CONSIDERATION

The Acquiring Parties wish to strike, in its entirety, the text appearing in Item 4 of the Statement as filed on May 16, 2008, and replace it with the following text:

The purchase of the Acquired Companies is valued at approximately $6.2 billion. Consummation of the Merger is not subject to any financing condition or other financing contingency. The Acquiring Parties' intention is to fund the Proposed

Acquisition with cash on hand. On May 29, 2008, LMGI issued $1.25 billion of junior subordinated securities (hybrid debt). The Acquiring Parties intend to contribute the proceeds of such issuance down to LIH US as an investment in a subsidiary. Following such contribution, LMGI and LIH US will have adequate liquidity to fund the entire Proposed Acquisition with cash on hand, including, in part, proceeds from dividends that have been declared by certain of its current affiliates. As of August 1, 2008, all such dividends have been either approved, deemed approved or not disapproved, as the case may be, by the relevant state insurance regulators; all such dividends have been paid. LMGI will not borrow any funds under the previously-disclosed $1.25 billion bridge financing facility.

ITEM 5. FUTURE PLANS FOR THE DOMESTIC INSURERS

The Acquiring Parties wish to strike, in its entirety, the text appearing in Item 5 of the Statement as filed on May 16, 2008, and replace it with the following text:

(a) <u>Introduction</u>

The Proposed Acquisition is consistent with our commitment to growth and it will complement Liberty Mutual's existing Agency Markets business. Safeco has an excellent brand, a profitable book of business, talented people and a strong position in the independent agency system.

The addition of Safeco will expand the scale and scope of our Agency Markets business unit in an extremely beneficial fashion. Safeco has strong operations west of the Mississippi, whereas our Agency Markets business unit is stronger in the east. Safeco's business mix is approximately 65 percent personal lines and 35 percent commercial lines, whereas our Agency Markets business unit is more heavily weighted towards commercial lines. Additionally, both have superb surety businesses. Thus, this addition will result in a more balanced Agency Markets business mix and a more diversified geographic spread of risk.

Safeco's policyholders will clearly benefit from Liberty Mutual's commitment to its property and casualty operations. Our highly developed customer service culture is a reflection of our commitment to this business and something that we believe will be well received by the ongoing policyholders. Policyholders will also benefit from their insurer being affiliated with a large, stable group of companies that benefits from the diversification noted above. We look forward to working with the leadership of Safeco, who will play a key role in the joint integration team tasked with combining the best of both organizations to create a stronger Liberty Mutual Agency Markets. We share Safeco's commitment to employees, policyholders and agents.

(b) <u>Dividends, Liquidation, Dissolution, Sale of Assets, etc.</u>

Except as specifically described in this Item 5, the Acquiring Parties have no present plans or proposals to have the Domestic Insurers declare any extraordinary dividend, to liquidate the Domestic Insurers, to sell the Domestic Insurers' assets (except for transactions, such as investment portfolio transactions, in the ordinary course of business), to merge the Domestic Insurers with any person or persons or to make any other material change in any of the Domestic Insurers' investment policy, business, corporate structure, or management.

An essential part of the Agency Markets' business strategy is to empower local, largely autonomous management in a geographic region, supported by Liberty's home office centralized corporate units that provide low cost functional support in Actuarial, Claims, Finance, Human Resources, Information Technology, Insurance Operations, Legal and Planning. Thus, LMIC, or an affiliate, proposes to enter into the following agreements with the Domestic Insurers immediately upon consummation of the transaction (except where otherwise noted) and respectfully requests non-disapproval by the Commissioner of such agreements:

(1) Investment Management Agreements with LMIC (attached hereto as Exhibit 7-A)
The Investment Management Agreements provide for LMIC to manage and invest certain assets on behalf of the Domestic Insurers in designated asset sectors in accordance with investment policies and guidelines.

(2) Investment Management Agreements with Liberty Mutual Investment Advisors, LLC (attached hereto as Exhibit 7-B)
The Investment Management Agreements provide for Liberty Mutual Investment Advisors, LLC ("LMIA") to manage and invest certain assets on behalf of the Domestic Insurers in designated asset sectors in accordance with investment policies and guidelines.

(3) Cash Management Agreements with LMIA (attached hereto as Exhibit 7-C)
Under the Cash Management Agreements, LMIA will make, hold and administer certain short-term investments maturing in 365 days or less of purchase.

(4) Federal Tax Sharing Agreement with LMHC and affiliates (attached hereto as Exhibit 7-D, together with proposed Amendment No. 4)
It is proposed that the Domestic Insurers be added as parties to this agreement by Amendment No. 4. LMHC files a consolidated U.S. Federal income tax return on behalf of qualified subsidiaries. The Federal Tax Sharing Agreement outlines the rules for LMHC when preparing, calculating and filing the consolidated return.

(5) Management Services Agreement with LMIC (attached hereto as Exhibit 7-E)
The Management Services Agreement provides for the rendering of certain high-level management services by LMIC on behalf of each Domestic Insurer. If it is determined that the Domestic Insurers should join the inter-company pool referenced in subsection (c) below, it is anticipated that this agreement will be effective as of the date the Domestic Insurers join the pool.

(6) Management Services Agreement with Peerless Insurance Company (attached hereto as Exhibit 7-F, together with proposed Amendment 7)

If it is determined that the Domestic Insurers should join the inter-company pool referenced in subsection (c) below, it is proposed that the Domestic Insurers be added as parties to this agreement by Amendment 7 effective as of the date the Domestic Insurers join the pool. This agreement provides for the rendering of certain day-to-day services by Peerless Insurance Company or its affiliates, which will be affiliates of the Domestic Insurers upon closing of the Proposed Acquisition.

The Domestic Insurers' prospective affiliates within the Regional Companies division of the Liberty Mutual Agency Markets business unit have entered into agreements that are materially identical in form, subject to changes in investment guidelines, to those proposed to be entered into by the Domestic Insurers upon closing. Simultaneous with the entry into the above-referenced Federal Tax Sharing Agreement, the Acquiring Parties plan to have the Domestic Insurers terminate the Agreement of Allocation of Payment of Federal Income Taxes to which the Domestic Insurers currently are parties.

(c) <u>Future Operations</u>

The Domestic Insurers will continue to focus on property and casualty insurance with a primary focus, however, on personal, commercial and surety business. While the Acquiring Parties have yet to evaluate fully certain of the Domestic Insurers' marketing programs, the Acquiring Parties anticipate no material change in the method and manner in which the Domestic Insurers' insurance products are marketed and distributed through an independent agent system. The Acquiring Parties, however, currently believe they will leverage the "Safeco" brand nationally to strengthen the Liberty Mutual Agency Markets personal lines operations and they intend to maintain a significant presence in Washington.

We will not be able to completely articulate our transition plans until we assume full access to information and personnel post-closing so that a more comprehensive plan can be developed. Notwithstanding, Liberty Mutual has a long-standing history of excellence with respect to executing on its acquisitions and efficiently incorporating them into the Liberty Mutual Group on a timely and profitable basis by virtue of our highly focused and energized integration teams. Over the last 10 years, Liberty Mutual has successfully assimilated 24 acquisitions and continually implements best practices achieved from these numerous experiences. We are confident that the combination of Safeco and Liberty Mutual Agency Markets will result in a strong, profitable organization that takes the best components of two complementary businesses.

In this regard, we have already begun working in earnest with the senior leadership team at Safeco to form the joint integration teams tasked with combining the best of both organizations. It is our expectation that certain members of Safeco's management will continue with us, not only for purposes of the integration and transition, but also more importantly for providing a valuable contribution to the execution of Liberty Mutual Agency

Markets' long-term strategic vision. Retention of high performing employees is always a top priority in our acquisitions.

A paramount goal of these integration teams will be, and always is, to assure seamless integration of policyholders, agents and employees. We will spend significant time and effort on communications with these key constituencies and educating our employee teams that service them. We acknowledge that, after the Proposed Acquisition, certain corporate functions and expenses mandated by Safeco's status as a publicly traded company, in particular those focusing on shareholder needs, will no longer be necessary. In addition, there clearly will be duplication of certain corporate and employee services, and potential overlapping of certain office facilities. We will evaluate each of these areas carefully and we will design any transition in a manner that minimizes disruption to each of these key constituencies.

The joint integration teams will represent a spectrum of all the vital services necessary to assure achievement of our mandate, including claims handling, underwriting, agency management, customer communications, information systems management, and all the other necessary corporate services. We fully recognize that any interruptions or mishandling of these vital areas could dramatically impact the tremendous long-term value the Proposed Acquisition represents and thus we do not intend to let this happen.

Subject to appropriate deference to governing laws and confidentiality, Liberty Mutual has already taken a number of actions aimed to address the handling of customer complaints and to increase customer satisfaction in connection with the transition. Liberty Mutual's Presidential Service Team has already designated a single individual as the key person to handle all Safeco-related complaints during the transition process. We have already discussed process changes with Safeco's customer care unit (pre-closing) and provided information to that unit regarding Liberty Mutual's corporate complaint handling requirements (including file retention requirements). We have also requested that this unit provide Liberty Mutual with information on the location for all open and closed complaint files. In addition, we have also requested pre-closing copies of Safeco's complaint reports to review volume and trends, as well as for purposes of anticipating any potential issues post-closing. Further, we intend to work in earnest with the Safeco unit to handle all claims-related and sales/service-related complaints immediately after the closing. We also plan to work with the appropriate Liberty Mutual contacts to address any potential complaints regarding the acquisition or post-closing changes in operating procedures. We will notify the state regulatory authorities to start sending complaints for Safeco companies to the attention of the designated individual in Liberty Mutual's Presidential Service Team immediately after the closing. In addition, this same individual will be designated as the key contact for the state regulatory authorities' consumer affairs departments for any policyholder-related questions. The Presidential Service Team also has plans for appropriate staffing additions to handle any potential increases in the volume of complaints when adding Safeco customers to our customer base. We plan to monitor complaint activity--for complaints received at Safeco and at Liberty Mutual--on a bi-weekly basis to assess any transition issues or operational deficiencies and to share the reports with the key managers involved in the transition. We plan to consolidate all complaint tracking for Safeco in the

Presidential Service Team's database as of January 1, 2009, assuming the transaction closes during the third quarter of 2008. By that time, we will have identified, provided access to our system, and trained on its use the appropriate complaint administrators within Safeco. With respect to personal lines claims, as with our prior acquisitions key controls will be put in place to ensure a smooth transition of cases requiring transfer. For claims that may be assigned to a new claims handler, the forwarding office on every claim will send notices to all involved parties notifying them of the transfer and new contact information. Follow-up communication will be provided by the newly assigned handler. In all bodily injury cases, the handling adjuster will write a report before the transfer to flag any time-sensitive issues and enable a smooth transition.

We also note as Liberty Mutual continues to grow its business and increase its employee base, it considers from time to time whether efficiencies and other business benefits may be achieved by moving its employees into various employer entities controlled by LMHC. In the event any such moves were implemented, these changes would be conducted in a manner that assures that all employees of the Domestic Insurers are treated consistently with similarly situated employees of Liberty Mutual and its affiliates impacted by such moves.

The Acquiring Parties do not currently intend to modify the Domestic Insurers' existing inter-company reinsurance pooling agreements or their ceded reinsurance arrangements, although the Acquiring Parties plan to examine whether it is in the best interests of the Domestic Insurers and their affiliates to join the inter-company pool that covers the Regional Companies division of the Liberty Mutual Agency Markets business unit. If the determination is made to have the Domestic Insurers join the inter-company pool that covers the Domestic Insurers' prospective affiliates, a Form D or an amendment to this Form A would be filed with the Office of the Commissioner in a timely manner for its review. Finally, we anticipate that, upon closing, the Domestic Insurers will adopt the investment policy attached as Appendix A to the Liberty Mutual Investment Advisors, LLC Investment Management Agreement and terminate in an orderly fashion Safeco's existing outsourcing of the investment function.

The Acquiring Parties have no present intention to relocate the home office or corporate records of any of the Domestic Insurers. If we ultimately determine to relocate the corporate records of the Domestic Insurers, the Acquiring Parties will notify the Department in a timely manner.

(d) <u>Changes in the Board of Directors and Executive Officers</u>

While the Acquiring Parties have no present intention to change the day-to-day management of the business and operations of the Domestic Insurers, it is expected that, upon closing, the following individuals will become directors and executive officers of the Domestic Insurers, replacing the current directors and executive officers of the Domestic Insurers, so that the directors and executive officers of the Domestic Insurers are, to the extent permitted by law and the Domestic Insurers' organizational documents, consistent with the directors and executive officers of the Acquiring Parties' other insurers within the Liberty Mutual Agency Markets business unit.

Directors:	Executive Officers:
James F. Dore	Gary R. Gregg, President & CEO
John D. Doyle	James F. Dore, Treasurer & CFO
Joseph A. Gilles	Anthony A. Fontanes, Executive Vice President & Chief Investment Officer
Scott R. Goodby	Joseph A. Gilles, Executive Vice President
Gary R. Gregg, Chairman	Scott R. Goodby, Executive Vice President & COO
A. Alexander Fontanes	Edmund C. Kenealy, Secretary
James E. Tuite	
Christopher C. Mansfield	

These changes will make the Domestic Insurers' corporate governance functions more efficient and more consistent with those of their Liberty Mutual Agency Markets affiliates. Additionally, it is possible that other titling changes may occur upon and after closing of the Proposed Acquisition to conform the Domestic Insurers to Liberty Mutual Agency Markets' officer titling practices. Biographical affidavits on the form adopted by the National Association of Insurance Commissioners completed by Messrs. Doyle, Fontanes, Gregg and Mansfield are attached to this Statement as part of Exhibit 5. Biographical affidavits on the form adopted by the National Association of Insurance Commissioners completed by the remaining individuals identified above are attached to this Statement as Exhibit 7-G, and fingerprint cards of those same individuals are attached to this Statement as Exhibit 7-H.

ITEM 6. VOTING SECURITIES TO BE ACQUIRED

No change

ITEM 7. OWNERSHIP OF VOTING SECURITIES

The Acquiring Parties wish to strike, in its entirety, the text appearing in Item 7 of the Statement as filed on May 16, 2008, and replace it with the following text:

Except in connection with the Intech-managed public equity portfolio specifically discussed in Item 9, and except for any purchases of shares in commingled funds/collective trusts and mutual funds as discussed in Item 9, none of the Acquiring Parties, and to the knowledge of the Acquiring Parties, any person controlling, controlled by or under common control with any Acquiring Party or any person listed in Item 3 holds of record or beneficially owns or has a right to acquire any voting securities or securities which may be converted into voting securities of Safeco or the Domestic Insurers.

ITEM 8. CONTRACTS, ARRANGEMENTS OR UNDERSTANDINGS WITH RESPECT TO VOTING SECURITIES OF THE INSURER

The Acquiring Parties wish to strike, in its entirety, the text appearing in Item 8 of the Statement as filed on May 16, 2008, and replace it with the following text:

Except as provided by the Merger or in connection with the Intech-managed public equity portfolio specifically discussed in Item 9, and except for any purchases of shares in commingled funds/collective trusts and mutual funds as discussed in Item 9, there are no contracts, arrangements, or understandings directly or indirectly relating to any voting securities of Safeco or the Domestic Insurers involving any Acquiring Party, and to the knowledge of the Acquiring Parties, any person controlling, controlled by or under common control with any Acquiring Party or any person listed in Item 3, including but not limited to the transfer of any of the securities, joint ventures, loan or option arrangements, puts or calls, guarantees of loans, guarantees against loss or guarantees of profits, division of losses or profits, or the giving or withholding of proxies.

ITEM 9. RECENT PURCHASE OF VOTING SECURITIES

No change

ITEM 10. RECENT RECOMMENDATIONS TO PURCHASE

No change

ITEM 11. AGREEMENTS WITH BROKER-DEALERS

No change

ITEM 12. FINANCIAL STATEMENTS AND EXHIBITS

The Acquiring Parties hereby state that the financial statements attached as Exhibits 9-A through 10-B represent the best available financial statements for the last five calendar years, as well as for the last ninety days, for each of the Acquiring Parties. The Acquiring Parties also wish to amend the exhibit list as filed on May 16, 2008, in the manner indicated below, and do herewith submit revised versions of Exhibit 3, Exhibit 9-C and Exhibit 9-D and the newly-submitted Exhibit 9-E, Exhibit 9-F, Exhibit 9-G, and Exhibit 9-H:

Exhibit 1.	No change
Exhibit 2.	No change
Exhibit 3.	Re-Filed Current Organization Chart of the Acquiring Parties[2]
Exhibit 4.	No change
Exhibit 5-A.	No change
Exhibit 5-B.	No change

[2] The Acquiring Parties are re-filing a more legible version of Exhibit 3. The content of the re-filed Exhibit 3 is unchanged from the Acquiring Parties' May 16, 2008 submission.

Exhibit 6	Removed[3]
Exhibit 7-A.	No change
Exhibit 7-B.	No change
Exhibit 7-C.	No change
Exhibit 7-D.	No change
Exhibit 7-E.	No change
Exhibit 7-F.	No change
Exhibit 7-G.	No change
Exhibit 7-H.	No change
Exhibit 8	No change
Exhibit 9-A.	No change
Exhibit 9-B.	No change
Exhibit 9-C.	Financial Statements of LIHI for the Period Ended March 31, 2008 and for the Years Ended December 31, 2007, December 31, 2006, December 31, 2005, December 31, 2004, and December 31, 2003
Exhibit 9-D.	Financial Statements of LIH US for the Period Ended March 31, 2008 and for the Years Ended December 31, 2007, December 31, 2006, December 31, 2005, December 31, 2004, and December 31, 2003
Exhibit 9-E	Financial Statements of LMGI for the Period Ended March 31, 2008, and for the Years Ended December 31, 2007, December 31, 2006, December 31, 2005, December 31, 2004, and December 31, 2003
Exhibit 9-F	Financial Statements of LMHC MA for the Period Ended March 31, 2008, and for the Years Ended December 31, 2007, December 31, 2006, December 31, 2005, December 31, 2004, and December 31, 2003
Exhibit 9-G	Consolidated Financial Statements of LMHC for the Period Ended June 30, 2008

[3] Exhibit 6 formerly included the commitment letters for the previously-disclosed bridge facility, under which LMGI will not be borrowing any funds.

Exhibit 9-H	Audited Combined Statutory Basis Financial Statements of the Liberty Mutual Insurance Company Pool for the Years Ended December 31, 2007, December 31, 2006, December 31, 2005, December 31, 2004, and December 31, 2003
Exhibit 10-A.	No change
Exhibit 10-B.	No change
Exhibit 11.	No change

SIGNATURE

Pursuant to the requirements of section 4, chapter 462, Laws of 1993, Liberty Insurance Holdings, Inc. has caused this amendment to the Statement to be duly signed on its behalf in the City of Boston in the Commonwealth of Massachusetts on the 30th day of July, 2008.

(SEAL)

LIBERTY INSURANCE HOLDINGS, INC.

BY: [signature]
Christopher C. Mansfield
Vice President and General Counsel

Attest:

[signature]
James R. Pugh
Assistant Secretary

CERTIFICATION

The undersigned deposes and says that he has duly executed the attached amendment to the Statement, dated July 30, 2008, for and on behalf of Liberty Insurance Holdings, Inc., that he is the Vice President and General Counsel of such company, and that he is authorized to execute and file such instrument. Deponent further says that he is familiar with the instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

[signature]
Christopher C. Mansfield

Subscribed and sworn to me this 30th day of July, 2008.

[signature]
Notary Public
My commission expires on 11/14/2014

22781764v1

SIGNATURE

Pursuant to the requirements of section 4, chapter 462, Laws of 1993, Liberty Mutual Insurance Company has caused this amendment to the Statement to be duly signed on its behalf in the City of Boston in the Commonwealth of Massachusetts on the 30th day of July, 2008.

(SEAL)

LIBERTY MUTUAL INSURANCE COMPANY

BY: ____________________
Christopher C. Mansfield
Senior Vice President and General Counsel

Attest:

____
James R. Pugh
Assistant Secretary

CERTIFICATION

The undersigned deposes and says that he has duly executed the attached amendment to the Statement, dated July 30, 2008, for and on behalf of Liberty Mutual Insurance Company, that he is the Senior Vice President and General Counsel of such company, and that he is authorized to execute and file such instrument. Deponent further says that he is familiar with the instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

____
Christopher C. Mansfield

Subscribed and sworn to me this 30th day of July, 2008.

Lynn J. Rosato
Notary Public
My commission expires on 11/14/2014

22781764v1

SIGNATURE

Pursuant to the requirements of section 4, chapter 462, Laws of 1993, Liberty Mutual Group Inc. has caused this amendment to the Statement to be duly signed on its behalf in the City of Boston in the Commonwealth of Massachusetts on the 30th day of July, 2008.

(SEAL)

LIBERTY MUTUAL GROUP INC.

BY:
Christopher C. Mansfield
Vice President and General Counsel

Attest:

James R. Pugh
Assistant Secretary

CERTIFICATION

The undersigned deposes and says that he has duly executed the attached amendment to the Statement, dated July 30, 2008, for and on behalf of Liberty Mutual Group Inc., that he is the Vice President and General Counsel of such company, and that he is authorized to execute and file such instrument. Deponent further says that he is familiar with the instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

Christopher C. Mansfield

Subscribed and sworn to me this 30th day of July, 2008.

Notary Public
My commission expires on 11/14/2014

22781764v1

ITEM 13. SIGNATURES AND CERTIFICATIONS

SIGNATURE

Pursuant to the requirements of section 4, chapter 462, Laws of 1993, Liberty Mutual Holding Company Inc. has caused this amendment to the Statement to be duly signed on its behalf in the City of Boston in the Commonwealth of Massachusetts on the 30th day of July, 2008.

(SEAL) LIBERTY MUTUAL HOLDING COMPANY INC.

BY: ______________________
Christopher C. Mansfield
Senior Vice President and General Counsel

Attest:

____
James R. Pugh
Assistant Secretary

CERTIFICATION

The undersigned deposes and says that he has duly executed the attached amendment to the Statement, dated July 30, 2008, for and on behalf of Liberty Mutual Holding Company Inc., that he is the Senior Vice President and General Counsel of such company, and that he is authorized to execute and file such instrument. Deponent further says that he is familiar with the instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

____
Christopher C. Mansfield

Subscribed and sworn to me this 30th day of July, 2008.

____
Notary Public
My commission expires on 11/14/2014

22781764v1

SIGNATURE

Pursuant to the requirements of section 4, chapter 462, Laws of 1993, LMHC Massachusetts Holdings Inc. has caused this amendment to the Statement to be duly signed on its behalf in the City of Boston in the Commonwealth of Massachusetts on the 30th day of July, 2008.

(SEAL)

LMHC MASSACHUSETTS HOLDINGS INC.

BY: [signature]
Christopher C. Mansfield
Vice President and General Counsel

Attest:

[signature]
James R. Pugh
Assistant Secretary

CERTIFICATION

The undersigned deposes and says that he has duly executed the attached amendment to the Statement, dated July 30, 2008, for and on behalf of LMHC Massachusetts Holdings Inc., that he is the Vice President and General Counsel of such company, and that he is authorized to execute and file such instrument. Deponent further says that he is familiar with the instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

[signature]
Christopher C. Mansfield

Subscribed and sworn to me this 30th day of July, 2008.

[signature]
Notary Public
My commission expires on 11/14/2014

22781764v1

SIGNATURE

Pursuant to the requirements of section 4, chapter 462, Laws of 1993, LIH US P&C Corporation has caused this amendment to the Statement to be duly signed on its behalf in the City of Boston in the Commonwealth of Massachusetts on the 30th day of July, 2008.

(SEAL)

LIH US P&C CORPORATION

BY: ______________________________
Christopher C. Mansfield
Vice President and General Counsel

Attest:

____
James R. Pugh
Assistant Secretary

CERTIFICATION

The undersigned deposes and says that he has duly executed the attached amendment to the Statement, dated July 30, 2008, for and on behalf of LIH US P&C Corporation that he is the Vice President and General Counsel of such company, and that he is authorized to execute and file such instrument. Deponent further says that he is familiar with the instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

____
Christopher C. Mansfield

Subscribed and sworn to me this 30th day of July, 2008.

____
Notary Public
My commission expires on 11/14/2014

22781764v1

9-C

Liberty Insurance Holdings, Inc.

Balance Sheets (Statutory Basis)

December 31, 2003-2007 & March 31, 2008

(dollars in thousands)

(Unaudited)

	March 31, 2008	December 31, 2007	December 31, 2006	December 31, 2005	December 31, 2004	December 31, 2003
ASSETS:						
Cash and short-term investments	$ 1	$ 1	$ (283)	$ 585	$ 556	$ 781
Investment in subsidiaries	1,788,043	1,783,334	1,604,728	1,508,876	1,311,013	1,186,755
Accrued investment income		-	3	12	8	2
Deferred Federal Income Taxes		-	-	-	14,036	14,036
Intercompany receivable		-	-	-	-	-
Note receivable	182	528	1,911	3,290	4,155	4,922
Federal income tax recoverable		-	47	-	2,366	1,576
Other Asset		-	-	-	34	12
Total Assets	$ 1,788,226	$ 1,783,863	$ 1,606,406	$ 1,512,763	$ 1,332,168	$ 1,208,084
LIABILITIES AND STOCKHOLDER'S EQUITY:						
LIABILITIES						
Accrued expenses	$	$ -	$ -	$ -	$ -	$ -
Accrued interest		-	-	-	-	-
Note payable		-	-	-	-	-
Intercompany payable	2,493	2,842	4,448	6,505	7,404	2,611
Other liabilities	146	145	-	482	415	430
Total liabilites	2,639	2,987	4,448	6,987	7,819	3,041
STOCKHOLDER'S EQUITY:						
Paid-in capital	1,570,381	1,570,381	1,570,381	1,420,381	1,420,381	1,420,381
Unassigned surplus	215,206	210,495	31,577	85,395	(96,032)	(215,338)
Total stockholder's equity	1,785,587	1,780,876	1,601,958	1,505,776	1,324,349	1,205,043
Total Liabilities and Stockholder's Equity	$ 1,788,226	$ 1,783,863	$ 1,606,406	$ 1,512,763	$ 1,332,168	$ 1,208,084

Liberty Insurance Holdings, Inc.

Statements of Income (Statutory Basis)

Years Ended December 31, 2003-2007 & Three months ended March 31, 2008

(dollars in thousands)

(Unaudited)

	March 31, 2008	December 31, 2007	December 31, 2006	December 31, 2005	December 31, 2004	December 31, 2003
Revenues:						
Net investment income	$ 2	$ 414	$ 87	$ 103	$ 393	$ 2,148
Interest income		-	-	-	-	-
Total revenues	2	414	87	103	393	2,148
Expenses:						
Claims, Benefit, and Expenses		-	(416)	-	14	-
Other expenses		-	-	-	-	-
Total expenses		-	(416)	-	14	-
Gain from continuing operations before income tax expense	2	414	503	103	379	2,148
Current income tax expense	1	145	176	36	133	752
Net income (loss)	$ 1	$ 269	$ 327	$ 67	$ 246	$ 1,396

9-D

LIH US P&C Corporation

Balance Sheets (Statutory Basis)

December 31, 2003-2007 & March 31, 2008

(dollars in thousands)

(Unaudited)

	March 31, 2008	December 31, 2007	December 31, 2006	December 31, 2005	December 31, 2004	December 31, 2003
ASSETS:						
Cash and short-term investments	$ 3,697	$ 3,437	$ 1,867	$ 3,714	$ 90	$ 1,769
Investment in subsidiaries	1,784,537	1,780,037	1,603,025	1,505,476	1,307,695	1,183,901
Accrued investment income		-	-	-	-	-
Intercompany receivable		-	-	-	3,154	600
Note receivable		-	-	-	-	-
Federal income tax recoverable		-	-	-	-	-
Other Asset	11	13	25	1	668	1,079
Total Assets	$ 1,788,245	$ 1,783,487	$ 1,604,917	$ 1,509,191	$ 1,311,607	$ 1,187,349
LIABILITIES AND STOCKHOLDER'S EQUITY:						
LIABILITIES						
Accrued expenses	$	$ -	$ -	$ -	$ -	$ -
Accrued interest		-	-	-	-	-
Note payable		-	-	-	-	-
Intercompany payable		-	-	14	-	-
Other liabilities	202	153	189	301	594	594
Total liabilites	202	153	189	315	594	594
STOCKHOLDER'S EQUITY:						
Paid-in capital	468,418	468,418	468,418	318,418	318,418	318,418
Unassigned surplus	1,319,625	1,314,916	1,136,310	1,190,458	992,595	868,337
Total stockholder's equity	1,788,043	1,783,334	1,604,728	1,508,876	1,311,013	1,186,755
Total Liabilities and Stockholder's Equity	$ 1,788,245	$ 1,783,487	$ 1,604,917	$ 1,509,191	$ 1,311,607	$ 1,187,349

LIH US P&C Corporation

Statements of Income (Statutory Basis)

Years Ended December 31, 2003-2007 & Three months ended March 31, 2008

(dollars in thousands)

(Unaudited)

	March 31, 2008	December 31, 2007	December 31, 2006	December 31, 2005	December 31, 2004	December 31, 2003
Revenues:						
Net investment income	$ 258	$ 1,417	$ 1,035	$ 884	$ 1,067	$ 877
Interest income		-	-	-	-	-
Total revenues	258	1,417	1,035	884	1,067	877
Expenses:						
Claims, Benefit, and Expenses		-	9	-	-	-
Other expenses		-	-	-	-	-
Total expenses		-	9	-	-	-
Gain from continuing operations before income tax expense	258	1,417	1,026	884	1,067	877
Current income tax expense (benefit)	12	183	64	12	6	9
Net income	$ 246	$ 1,234	$ 962	$ 872	$ 1,061	$ 868

9-E

Balance Sheets
Liberty Mutual Group Inc. - Stand Alone Basis
GAAP Basis
(dollars in millions)
unaudited

	As of December 31, 2006	2005	2004	2003
Fixed Maturities	$ 1	$ -	$ 51	$ 52
Investment in Affiliates	13,895	11,373	10,494	8,534
Total Investments	13,896	11,373	10,545	8,586
Cash and Cash Equivalents	2	3	16	18
Deferred Federal Income Taxes	(4)	171	11	56
Goodwill and Intangible Assets	7	9	10	16
Other Assets	482	271	77	27
Total Assets	$ 14,383	$ 11,827	$ 10,660	$ 8,703
Short-term Debt	$ -	$ 10	$ 16	$ -
Long Term Debt	2,237	1,497	1,015	420
Other Liabilities (Corporate benefits)	1,245	1,457	927	900
Total Liabilities	3,482	2,964	1,958	1,320
Policyholders' Equity	10,901	8,863	8,702	7,383
Total Liabilities and Policyholders' Equity	$ 14,383	$ 11,827	$ 10,660	$ 8,703

Balance Sheets
Liberty Mutual Group Inc. - Stand Alone Basis
GAAP Basis
(dollars in millions)
unaudited

	March 31, 2008	December 31, 2007
Fixed Maturities	$ 2	$ 2
Investment in Affiliates	16,956	16,828
Total Investments	16,958	16,830
Cash and Cash Equivalents	-	-
Deferred Federal Income Taxes	137	139
Goodwill and Intangible Assets	5	6
Other Assets	415	450
Intercompany	(19)	4
Total Assets	$ 17,496	$ 17,429
Unpaid claims and claim adjustment expense and future policy benefits	$ 47	$ 47
Short-term Debt	3	4
Long Term Debt	3,233	3,233
Other Liabilities	1,763	1,764
Total Liabilities	5,046	5,048
Policyholders' Equity	12,450	12,381
Total Liabilities and Policyholders' Equity	$ 17,496	$ 17,429

Earnings Statements
Liberty Mutual Group Inc. - Stand-Alone Basis
GAAP Basis
(dollars in millions)
unaudited

	For the years ended December 31, 2006	2005	2004	2003
Net Investment Income	$ 164	$ 219	$ 111	$ (1)
Net Realized Investment Gains (Losses)	0	(3)	0	0
Revenues	164	216	112	(1)
Insurance operating costs (benefits)	(12)	(5)	(5)	(1)
Interest Expense	122	95	62	5
Claims, Benefits, and Expenses	110	90	57	4
Income Tax Expense (Benefit):	19	44	19	(2)
Income (loss) from operations before equity in earnings of subsidiaries	35	82	36	(3)
Equity in earnings of subsidiaries, net of tax	1,593	947	1,211	855
Net Income	$ 1,629	$ 1,029	$ 1,247	$ 852

Earnings Statements
Liberty Mutual Group Inc. - Stand-Alone Basis
GAAP Basis
(dollars in millions)
unaudited

	Three months ended March 31, 2008		Year ended December 31, 2007	
Equity in earnings of subsidiaries, net of tax	$	401	$	1,515
Net Investment Income		1		227
Revenues	$	402	$	1,742
Insurance operating costs and expenses		5		(8)
Other Expenses		58		219
Claims, Benefits, and Expenses		63		211
Income Tax Expense (Benefit):		(22)		6
Net Income	$	361	$	1,525

9-F

Balance Sheets
LMHC Massachusetts Holdings Inc. - Stand Alone Basis
GAAP Basis
(dollars in millions)
unaudited

	As of December 31, 2006	2005	2004	2003
Investment in Affiliates	$ 10,901	$ 8,863	$ 8,701	$ 7,383
Total Assets	$ 10,901	$ 8,863	$ 8,701	$ 7,383
Total Liabilities	$ -	$ -	$ -	$ -
Policyholders' Equity	10,901	8,863	8,701	7,383
Total Liabilities and Policyholders' Equity	$ 10,901	$ 8,863	$ 8,701	$ 7,383

Balance Sheets
LMHC Massachusetts Holdings Inc. - Stand Alone Basis
GAAP Basis
(dollars in millions)
unaudited

	March 31, 2008		December 31, 2007	
Investment in Affiliates	$	12,450	$	12,381
Total Assets	$	12,450	$	12,381
Total Liabilities		0		0
Policyholders' Equity		12,450		12,381
Total Liabilities and Policyholders' Equity	$	12,450	$	12,381

Earnings Statements
LMHC Massachusetts Holdings Inc. - Stand Alone Basis
GAAP Basis
(dollars in millions)
unaudited

	For the years ended December 31, 2006	2005	2004	2003
Revenues	$ -	$ -	$ -	$ -
Claims, Benefits, and Expenses	-	-	-	-
Income (loss) from continuing operations before income tax expense	-	-	-	-
Income Tax Expense (Benefit):	-	-	-	-
Income from operations before equity in earnings of subsidiaries	-	-	-	-
Equity in earnings of subsidiaries, net of tax	1,629	1,029	1,247	852
Net Income	$ 1,629	$ 1,029	$ 1,247	$ 852

Earnings Statements
LMHC Massachusetts Holdings Inc. - Stand Alone Basis
GAAP Basis
(dollars in millions)
unaudited

	Three months ended March 31, 2008	Year ended December 31, 2007
Equity in earnings of subsidiaries, net of tax	$ 361	$ 1,525
Revenues	$ 361	$ 1,525
Claims, Benefits, and Expenses	-	-
Income (loss) from continuing operations before income tax expense	361	1,525
Income Tax Expense (Benefit):	-	-
Net Income	$ 361	$ 1,525

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Liberty Mutual Holding Company Inc.

Second Quarter 2008

Consolidated Financial Statements

Liberty Mutual Holding Company Inc.

Consolidated Statements of Income

(dollars in millions)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Revenues				
Premiums earned	$ 6,004	$ 5,356	$ 11,942	$ 10,567
Net investment income	754	710	1,511	1,383
Net realized investment gains (losses)	5	45	(7)	125
Fee and other revenues	185	184	387	363
Total revenues	6,948	6,295	13,833	12,438
Claims, Benefits and Expenses				
Benefits, claims and claim adjustment expenses	4,540	3,962	8,954	7,832
Insurance operating costs and expenses	922	880	1,867	1,783
Amortization of deferred policy acquisition costs	942	825	1,855	1,583
Interest expense	93	79	176	145
Interest credited to policyholders	39	51	89	97
Total claims, benefits and expenses	6,536	5,797	12,941	11,440
Income before income tax expense	412	498	892	998
Income tax expense	112	159	232	309
Net income	$ 300	$ 339	$ 660	$ 689

See accompanying notes to the unaudited consolidated financial statements.

Liberty Mutual Holding Company Inc.

Consolidated Balance Sheets

(dollars in millions)

(Unaudited)

	June 30, 2008	December 31, 2007
Assets:		
Investments		
Fixed maturities, available for sale, at fair value (amortized cost of $44,949 and $46,848)	$ 44,145	$ 46,934
Equity securities, available for sale, at fair value (cost of $2,022 and $2,418)	2,394	3,285
Trading securities, at fair value (cost of $17 and $16)	17	16
Short-term investments	901	764
Mortgage loans	912	657
Other investments	2,703	2,348
Total investments	51,072	54,004
Cash and cash equivalents	9,127	3,199
Premium and other receivables (net of allowance of $98 and $99)	7,162	6,491
Reinsurance recoverables (net of allowance of $316 and $331)	15,272	15,518
Deferred income taxes (net of valuation allowance of $155 and $117)	1,955	1,469
Deferred acquisition costs and acquired in-force policy intangibles	2,222	2,045
Goodwill and intangible assets	2,403	2,292
Prepaid reinsurance premiums	1,351	1,180
Separate account assets	3,798	3,431
Other assets	5,515	5,113
Total assets	$ 99,877	$ 94,742
Liabilities:		
Unpaid claims and claim adjustment expenses and future policy benefits:		
Property and casualty	$ 44,005	$ 42,992
Life	6,258	6,063
Other policyholder funds and benefits payable	2,916	2,818
Unearned premiums	11,439	10,625
Funds held under reinsurance treaties	1,893	1,941
Short-term debt	18	91
Long-term debt	5,583	4,360
Separate account liabilities	3,798	3,431
Other liabilities	11,702	10,055
Total liabilities	87,612	82,376
Policyholders' equity:		
Unassigned equity	12,240	11,621
Accumulated other comprehensive income	25	745
Total policyholders' equity	12,265	12,366
Total liabilities and policyholders' equity	$ 99,877	$ 94,742

See accompanying notes to the unaudited consolidated financial statements.

Liberty Mutual Holding Company Inc.

Consolidated Statements of Changes in Policyholders' Equity

(dollars in millions)

(Unaudited)

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Balance at beginning of the period	$ 12,366	$ 10,895
Net income	660	689
Other comprehensive (loss) income, net of taxes:		
Unrealized (losses) on securities	(832)	(514)
Foreign currency translation and other adjustments	112	147
Total other comprehensive (loss), net of taxes	(720)	(367)
Total comprehensive (loss) income	(60)	322
Cumulative effect of accounting change (Note 1)	(41)	11
Balance at end of the period	$ 12,265	$ 11,228

See accompanying notes to the unaudited consolidated financial statements.

Liberty Mutual Holding Company Inc.

Consolidated Statements of Cash Flows

(dollars in millions)

(unaudited)

	Six Months Ended June 30, 2008	2007
Cash flows from operating activities:		
Net income	$ 660	$ 689
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized investment (losses) gains	7	(125)
Undistributed private equity investment gains	(114)	(138)
Premium, other receivables, and reinsurance recoverables	(350)	(71)
Deferred policy acquisition costs	(119)	(93)
Liabilities for insurance reserves	1,520	1,565
Taxes payable, net of deferred	(121)	(73)
Other, net	209	42
Total adjustments	1,032	1,107
Net cash provided by operating activities	1,692	1,796
Cash flows from investing activities:		
Purchases of investments	(6,451)	(11,671)
Sales and maturities of investments	8,674	9,877
Property and equipment purchased, net	(164)	(211)
Payment for purchase of companies, net of cash acquired	(143)	-
Other investing activities	(265)	(304)
Net cash provided by (used in) investing activities	1,651	(2,309)
Cash flows from financing activities:		
Net activity in policyholder accounts	35	14
Debt financing, net	1,138	882
Net security lending activity and other financing actitivites	1,412	(248)
Net cash provided by financing activities	2,585	648
Net increase in cash and cash equivalents	5,928	135
Cash and cash equivalents, beginning of period	3,199	3,512
Cash and cash equivalents, end of period	$ 9,127	$ 3,647

See accompanying notes to the unaudited consolidated financial statements.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Liberty Mutual Holding Company Inc. and its subsidiaries (collectively "LMHC" or the "Company"). Certain reclassifications have been made to the 2007 consolidated financial statements to conform to the 2008 presentation. All material intercompany transactions and balances have been eliminated.

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

Adoption of New Accounting Standards

Effective January 1, 2008, the Company had the option to adopt Statement of Financial Accounting Standards No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of SFAS 115*" ("SFAS 159"). The Company has not made any fair value elections under SFAS 159. See note 5, for adoption of SFAS 157.

Effective January 1, 2008, the Company adopted Emerging Issues Task Force ("EITF") issue No. 06-4, "*Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*" ("EITF 06-4"). This issue provides guidance on the recognition and measurement of assets related to collateral assignment split-dollar life insurance arrangements. The adoption of EITF 06-4 resulted in a decrease to policyholders' equity of $41.

Effective January 1, 2008, the Company adopted EITF issue No. 06-10, "*Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements* ("EITF 06-10"). This issue requires a company to recognize a liability for future life insurance benefits in accordance with SFAS 106 or Opinion 12. The adoption of EITF 06-10 had no impact on the Company's financial statements.

Future Adoption of New Accounting Standards

In December 2007, the FASB issued SFAS No. 141(R), "*Applying the Acquisition Method*" ("SFAS 141(R)"). This issue will result in significant changes to accounting for business combinations. Prospective adoption is required and early adoption is not permitted. The Company is required to adopt SFAS 141(R) effective January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, "*Accounting for Noncontrolling Interests*" ("SFAS 160"). SFAS 160 will result in the consolidation of all non-controlling interests within the income statement and balance sheet of the Company for all consolidated subsidiaries. SFAS 160 is required to be adopted on January 1, 2009. Prospective adoption is required, except for the required reclassifications which are to be applied retrospectively. Early adoption is not permitted. The Company is in the process of evaluating the impact of adoption.

In March 2008, FASB issued SFAS No. 161, "*Disclosures about Derivative Instruments and Hedging Activities*" ("SFAS 161"). SFAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is in the process of evaluating the impact of adoption.

In May 2008, the FASB issued SFAS No. 162, "*The Hierarchy of Generally Accepted Accounting Principles*" ("SFAS 162"). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of entities that are presented in conformity with generally accepted accounting principles in the United States. This Statement is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. The Company is in the process of evaluating the impact of adoption.

In May 2008, the FASB issued SFAS No. 163, "*Accounting for Financial Guarantee Insurance Contracts – an interpretation of FASB Statement No. 60,*" ("SFAS 163"). SFAS 163 is intended to increase comparability in financial reporting of financial guarantee insurance contracts by insurance companies. SFAS 163 requires that an insurance enterprise recognize a claim liability prior to an event of default when there is evidence that credit deterioration has occurred in an insured financial obligation. This Statement also clarifies how Statement 60 applies to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities. SFAS 163 is effective for fiscal years beginning after December 15, 2008. As the Company does not write financial guarantee insurance contracts, SFAS 163 will have no impact.

(dollars in millions, except per share amounts)

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

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

	June 30, 2008	December 31, 2007
Unrealized (losses) gains on securities	($258)	$574
Foreign currency translation & other adjustments	561	456
Minimum pension liability	(278)	(285)
Accumulated other comprehensive income	$25	$745

(2) ACQUISITIONS AND GOODWILL

On January 9, 2008, the Company through its Brazilian subsidiary, Liberty International Brazil Ltda., acquired Indiana Seguros, S.A., a writer of auto insurance in Brazil. Goodwill recognized from the transaction was $102. The results of operations of Indiana Seguros, S.A. are included in the Company's financial statements subsequent to January 9, 2008.

On August 24, 2007, the Company, through its subsidiaries, acquired all outstanding shares of common stock of Ohio Casualty Corporation ("Ohio Casualty") for approximately $2,800. Goodwill and intangible assets (including acquired in-force policy intangibles) recognized from the transaction was approximately $1,300. The results of operations of Ohio Casualty are included in the Company's financial statements subsequent to August 24, 2007.

Restructuring Activities

As part of the Ohio Casualty acquisition, management has received board authorization to implement certain restructuring efforts, principally employee and contract terminations. Changes to the restructuring reserves as of and for the six months ended June 30, 2008 are as follows:

	2008
Balance at beginning of year	$27
Payments applied against liability	(11)
Balance at June 30, 2008	$16

(3) REINSURANCE

The Company is party to retroactive reinsurance arrangements where a significant portion of the consideration was retained on a "funds held" basis and interest is credited on the balance at a weighted average rate of approximately 7.7% annually. These contracts resulted in deferred gains (including experience related profit accruals of $195) that are amortized into income using the effective interest method over the estimated settlement periods. At June 30, 2008, and December 31, 2007, deferred gains related to these reinsurance arrangements were $761 and $786, respectively, and are included in other liabilities within the consolidated balance sheets. Interest credited to the funds held balances for the three months and six months ended June 30, 2008, was $30 and $59, respectively, as compared to $29 and $57, for the three months and six months ended June 30, 2007, respectively. Deferred gain amortization for the three months and six months ended June 30, 2008, was $17 and $33, respectively, as compared to $13 and $29 for the three months and six months ended June 30, 2007, respectively. Reinsurance recoverables related to these transactions, including experience related profit accruals, were $2,192 and $2,222 as of June 30, 2008, and December 31, 2007, respectively.

Additionally, the Company has an aggregate stop loss program covering substantially all of Commercial Markets voluntary workers compensation business from the fourth quarter 2000 through the fourth quarter 2002 accident year periods. Under these contracts, losses in excess of a specified loss ratio are reinsured up to a maximum loss ratio and were accounted for as prospective reinsurance at inception. However, due to a material contract change at the January 1, 2002 renewal, premium and loss activity subsequent to December 31, 2001 is now accounted for as retroactive reinsurance for coverage provided from the fourth quarter 2000 through the fourth quarter 2001 covered accident year periods.

In 2006, the Company entered into multi-year property catastrophe reinsurance agreements with Mystic Re Ltd. ("Mystic Re"), a Cayman Islands domiciled reinsurer, to provide $525 of additional reinsurance coverage for the Company in the event of a Northeast hurricane. The reinsurance agreements are collateralized through a trust and guarantee received by Mystic Re from the issuance of catastrophe bonds and provide coverage for hurricane-related losses from Washington, D.C. to Maine based on industry insured losses as reported by Property Claim Services. In 2007, the Company supplemented this reinsurance in a similar transaction with Mystic Re II Ltd. ("Mystic Re II"), a Cayman Islands domiciled reinsurer, to provide $150 of additional reinsurance coverage for the Company in the event of a Northeast and/or Florida hurricane event. The Company has not recorded any recoveries under these programs. Neither Mystic Re nor Mystic Re II has any other reinsurance in force.

(dollars in millions, except per share amounts)

(4) DEBT OUTSTANDING

Debt outstanding at June 30, 2008, and December 31, 2007, includes the following:

Short-term debt:

	2008	2007
Commercial paper	$ -	$ -
Revolving credit facilities	-	70
Current maturities of long-term debt	18	21
Total short-term debt	$18	$91

Long-term debt:

	2008	2007
8.00% Notes, due 2013	$260	$260
7.86% Medium Term Notes, due 2013	25	25
5.75% Notes, due 2014	500	500
7.30% Notes, due 2014[1]	200	200
6.70% Notes, due 2016	250	250
7.00% Subordinated Notes, due 2067[2]	300	300
8.50% Surplus Notes, due 2025	150	150
7.875% Surplus Notes, due 2026	250	250
7.63% Notes, due 2028	3	3
7.00% Notes, due 2034	250	250
6.50% Notes, due 2035	500	500
7.50% Notes, due 2036	500	500
7.80% Subordinated Notes, due 2087[3]	700	700
10.75% Subordinated Notes, due 2088[4]	1,250	-
7.697% Surplus Notes, due 2097	500	500
	5,638	4,388
Unamortized discount[5]	(55)	(28)
Total long-term debt excluding current maturities	$5,583	$4,360

[1] Reflects debt issued by Ohio Casualty.
[2] The par value call date and final fixed rate interest payment date is March 15, 2017, subject to certain requirements.
[3] The par value call date and final fixed rate interest payment date is March 15, 2037, subject to certain requirements.
[4] The par value call date and final fixed rate interest payment date is June 15, 2038, subject to certain requirements
[5] Reflects purchase accounting adjustment related to Ohio Casualty $200 senior notes, due 2014.

Short-term Debt

The Company issues commercial paper to meet short-term operating needs. The total facility was $1,000 at June 30, 2008 and December 31, 2007, and is supported by a $750 line of credit facility. Commercial paper issued and outstanding at June 30, 2008 and December 31, 2007 was $0.

On April 5, 2007, Liberty Mutual Group Inc. entered into a $250 3-year unsecured revolving credit facility for general corporate purposes. No funds have been borrowed to date under the facility.

Long-term Debt

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

On May 29, 2008, LMGI issued Series C junior subordinated notes (the "Series C Notes") with a face amount of $1,250. The Series C Notes are scheduled for redemption on June 15, 2058 with a final maturity of June 15, 2088. LMGI may redeem the Series C Notes in whole or in part, on June 15, 2038 and on each interest payment date thereafter at their principal amount plus accrued and unpaid interest to the date of redemption, or prior to June 15, 2038, (i) in whole or in part at any time at their principal amount or, if greater, a make-whole price, or (ii) in certain circumstances, in whole at their principal amount plus accrued and unpaid interest to the date of redemption or, if greater, a special event make-whole price. Interest is payable semi-annually at a fixed rate of 10.75% up to, but excluding, the final fixed rate interest payment date. In the event the Series C Notes are not redeemed on or before the final fixed rate interest payment date, interest will accrue at an annual rate of three-month LIBOR plus 7.12%, payable quarterly in arrears. LMGI has the right to defer interest payments on the Series C Notes for a period up to ten years. Interest compounds during periods of deferral. In connection with the issuance of the Series C Notes, LMGI entered into a replacement capital covenant ("RCC"). As part of the RCC, LMGI agreed that it will not repay, redeem, defease or purchase the Notes on or before the relevant RCC termination date unless, subject to certain limitations, it has received proceeds from the sale of specified capital securities. The RCC will terminate upon the occurrence of certain events, including an acceleration of the Notes, and may not be enforced by the holders of the Series C Notes. The RCC is for the benefit of holders of the specified series of LMGI's indebtedness (initially LMGI's 7.50% senior notes due 2036).

(dollars in millions, except per share amounts)

(5) SFAS 157 – FAIR VALUE MEASUREMENT

The Company adopted Statement of Financial Accounting Standard No. 157, *Fair Value Measurement*, ("SFAS 157") effective January 1, 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States, and enhances disclosures about fair value measurements. SFAS 157 provides guidance on how to measure fair value when required under existing accounting standards. The statement establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels ("Level 1, 2 and 3"). Level 1 inputs are observable inputs that reflect quoted prices for identical assets or liabilities in active markets the Company has the ability to access at the measurement date. Level 2 inputs are observable inputs, other than quoted prices included in Level 1, for the asset or liability. Level 3 inputs are unobservable inputs reflecting the Company's estimates of the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). Certain derivatives recorded at fair value based on the requirements of Statement of Financial Accounting Standard No. 133, *Accounting for Derivative Instruments and Hedging Activities,* are impacted by the application of SFAS 157. The Company has variable annuity contracts containing embedded derivatives that are affected by SFAS 157, but the impact is immaterial.

The hierarchy requires the use of market observable information when available for assessing fair value. The following table summarizes the Company's assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2008, along with a brief description of the valuation technique for each type of asset and liability:

Assets, at Fair Value	**Level 1**	**Level 2**	**Level 3**	**Total**
Fixed maturities, available for sale	$1,144	$42,265	$ 736	$44,145
Equity securities, available for sale	1,835	531	28	2,394
Trading securities	-	17	-	17
Commercial mortgage loans	-	-	874	874
Short-term investments	85	721	95	901
Other investments	(1)	114	66	179
Separate account assets	2,051	1,187	25	3,263
Other assets	19	18	13	50
Total assets	$5,133	$44,853	$1,837	$51,823
Liabilities, at Fair Value				
Life insurance obligations	-	-	112	112
Total liabilities	$ -	$ -	$112	$112

Fixed maturities and short-term investments are recorded at fair value in the Company's financial statements. In instances where there are quoted prices in active markets for identical instruments, as is the case within the US Treasury market, these securities are categorized as Level 1 of the fair value hierarchy. For securities where the fair value of fixed income securities are estimated using recently executed transactions, market price quotations, bond spreads, or models that have inputs from published interest rate yield curves, these securities are generally categorized as Level 2 of the hierarchy. Additionally, in some instances where fixed income securities use significant inputs that are unobservable, they are categorized as Level 3 of the hierarchy.

Equity securities are recorded at fair value in the Company's financial statements. The fair value of common stocks are generally based on quoted prices in active markets. As such, common stocks are generally categorized as Level 1 of the fair value hierarchy. The fair value of preferred stocks are generally determined by quoted prices for similar instruments in active markets, hence they are categorized as Level 2 of the fair value hierarchy.

(dollars in millions, except per share amounts)

Commercial mortgage loans are carried at amortized cost less a valuation allowance for potential uncollectible amounts on the Company's consolidated balance sheet. The table above reflects the fair value of the commercial mortgage loans portfolio. Fair value of the commercial mortgage loans is valued based on origination price and collateral performance credit events since origination, hence these loans are classified in Level 3 of the fair value hierarchy as significant inputs are unobservable.

Other investments includes primarily international loans, foreign cash deposits and co-investments. International loans and cash deposits are primarily valued using quoted prices for similar instruments in active markets; these assets are categorized as Level 2 of the fair value hierarchy. Additionally, co-investments are valued using internal management estimates; they are categorized as Level 3 of the hierarchy. Limited partnership investments, which represent the remainder of the other investment balance on the consolidated balance sheet are not subject to SFAS 157 and therefore excluded from the above table.

Separate account assets, which primarily consist of fixed maturity and equity securities, are measured based on the methodologies discussed above. The activity in separate account assets is offset by an equal amount for separate account liabilities, which results in a net zero impact for the Company.

Other assets primarily consist of fixed maturities, short-term investments, and equity securities of captive companies sponsored by the Company. These assets are measured based on the methodology for individual securities as discussed above.

Life insurance obligations include certain variable annuity contracts which contain guaranteed minimum income benefits that under SFAS 133 contain embedded derivatives and are bifurcated from the host contract and carried at fair value. The measurements on these embedded derivatives is computed on a recurring basis using assumptions predominately classified as level 3 (significant unobservable) inputs. While some inputs are observable in the market such as risk free rates, volatility and historical equity returns, the underlying future policyholder behavior inputs are highly unobservable. These assumptions include mortality, lapse, and the underlying take-up rate with regard to annuitization.

The following table sets forth the fair values of assets on a recurring basis classified as level 3 within the fair value hierarchy:

	Balance January 1, 2008	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Net Purchases, (Sales) and (Maturities)	Transfer in and/ or out of Level 3	Balance June 30, 2008
Fixed maturities	$825	($1)	($3)	($86)	$1	$736
Equity securities	43	-	(11)	-	(4)	28
Commercial mortgage loans	645	-	(27)	256	-	874
Short-term investments	70	-	7	18	-	95
Other investments	41	1	5	19	-	66
Separate account assets	23	-	-	2	-	25
Other assets	13	(1)	-	1	-	13
Total assets	$1,660	($1)	($29)	$210	($3)	$1,837
Life insurance obligations	105	22	-	(15)	-	112
Total liabilities	$105	$22	$-	($15)	$-	$112

There were no material unrealized gains (losses) for the period included in earnings attributable to the fair value relating to assets and liabilities classified as level 3 that are still held at June 30, 2008.

For the six months ended June 30, 2008, there were impairments of $12 recognized for items measured at fair value on a nonrecurring basis.

(dollars in millions, except per share amounts)

(6) BENEFIT PLANS

The net benefit costs for the three months ended June 30, 2008, and 2007, include the following components:

Three months ended June 30,	Pension Benefits		Supplemental * Pension Benefits		Postretirement Benefits	
	2008	2007	2008	2007	2008	2007
Components of net periodic benefit costs						
Service costs	$35	$34	$3	$2	$6	$4
Interest costs	61	49	4	3	9	8
Expected return on plan assets	(64)	(55)	-	-	(1)	(1)
Amortization of unrecognized:						
Net loss	3	8	1	1	(1)	1
Prior service cost	1	1	-	-	-	(1)
Net transition (assets)/obligation	(1)	(1)	-	-	2	2
Net periodic benefit costs	$35	$36	$8	$6	$15	$13

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

The net benefit costs for the six months ended June 30, 2008, and 2007, include the following components:

Six months ended June 30,	Pension Benefits		Supplemental * Pension Benefits		Postretirement Benefits	
	2008	2007	2008	2007	2008	2007
Components of net periodic benefit costs						
Service costs	$70	$70	$5	$4	$11	$9
Interest costs	120	98	8	6	19	15
Expected return on plan assets	(130)	(109)	-	-	(1)	(1)
Amortization of unrecognized:						
Net loss	5	18	2	2	(1)	1
Prior service cost	3	1	1	1	(1)	(2)
Net transition (assets)/obligation	(3)	(3)	-	-	4	4
Net periodic benefit costs	$65	$75	$16	$13	$31	$26

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

(7) COMMITMENTS AND CONTINGENT LIABILITIES

Armstrong World Industries Inc. ("Armstrong"), a signatory to the Wellington Agreement, a 1985 settlement agreement involving a number of asbestos products manufacturers and their insurers (the "Wellington Agreement"), is the Company's remaining Tier I asbestos defendant with unresolved claims and coverage disputes. The Company has been in various insurance coverage disputes with Armstrong for over twenty years.

Armstrong filed a Chapter 11 Bankruptcy petition in the United States Bankruptcy Court for the District of Delaware in December 2000. A plan of reorganization was confirmed in August 2006, and Armstrong formally emerged from bankruptcy as of October 2, 2006.

A Declaratory Judgment action, filed against the Company by Armstrong in 2002, is pending in the United States District Court for the Eastern District of Pennsylvania (the "Pennsylvania Coverage Action") seeking coverage for asbestos claims under insurance policies issued to Armstrong during the period 1977 to 1981, including damages and a declaration regarding the availability, applicability and scope of alleged non-product coverage. Armstrong contends that a significant portion of its asbestos liability arises from operations that would entitle Armstrong to insurance coverage under the disputed policies without regard to the aggregate limit of liability. The Pennsylvania Coverage Action is currently in the initial pleading stages and, while it has been inactive by agreement of the parties since 2002, the court reactivated the case at a scheduling conference on

October 22, 2007. The parties are currently in the early stages of exchanging paper discovery. A Scheduling Order has not yet been entered by the Court.

In July 2004, the Company prevailed in a favorable arbitration ruling before an appellate panel regarding Armstrong's available insurance coverage under policies in effect from 1973-1977. Subsequently, Armstrong filed in the United States District Court for the Eastern District of Pennsylvania, a motion to vacate that favorable ruling. The Company has filed a cross motion seeking to confirm the final decision. Both motions remain pending at this time.

The Company intends to vigorously defend its position in all pending litigation with Armstrong, including any argument that coverage issues were finally determined in the bankruptcy proceedings. Management believes that the ultimate liability, if any, to Armstrong will not be resolved for at least one year and very likely may not be known for several years. In the opinion of management, the outcome of these pending matters is difficult to predict and an adverse outcome could have a material adverse effect on the Company's business, financial condition, and results of operations.

As of June 30, 2008, the Company had unfunded commitments in traditional private equity partnerships, energy and other, real estate, and commercial mortgage loans of $1,073, $442, $487 and $195, respectively. As of June 30, 2008, the Company had commitments to purchase various residential mortgage-backed securities at a cost and fair market value of $10 and $10, respectively.

(8) SUBSEQUENT EVENTS

On April 23, 2008, The Company and Safeco Corporation announced that they entered into a definitive agreement pursuant to which The Company, through its subsidiaries, will acquire all outstanding shares of common stock of Safeco for $68.25 per share or approximately $6,200. The proposed transaction, which has been approved by the Boards of Directors of both companies, is subject to approval by Safeco's shareholders and customary regulatory approvals and conditions. The transaction is targeted to close in the third quarter of 2008.

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COMBINED STATUTORY BASIS FINANCIAL STATEMENTS

Liberty Mutual Insurance Company Pool
Years ended December 31, 2003 and 2002

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Report of Independent Auditors

The Board of Directors
Liberty Mutual Holding Company Inc.

We have audited the accompanying combined statutory basis balance sheets of the Liberty Mutual Insurance Company Pool (the Companies) as of December 31, 2003 and 2002, and the related combined statutory basis 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 did not audit the financial statements of Prudential Property and Casualty Insurance Company, Prudential General Insurance Company, and Prudential Commercial Insurance Company, (collectively referred to as PruPac), wholly-owned subsidiaries, which statements reflect total assets and pre-tax income constituting 5 percent and 28 percent, respectively, of the related combined totals as of and for the year ended December 31, 2003. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for PruPac, is based solely on the report of the other auditors.

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 and the report of the other auditors 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 are described in Note 1. The effects on the financial statements of these variances are not reasonably determinable, but are presumed to be material.

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 the Companies at December 31, 2003 and 2002, or the results of their operations or their cash flow for the years then ended.

However, in our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the combined financial position of the Companies at December 31, 2003 and 2002, and the combined results of its operations and its cash flow 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.

Ernst + Young LLP

February 27, 2004

Liberty Mutual Insurance Company Pool

Combined Statutory Basis Balance Sheets

December 31, 2003 and 2002

(dollars in thousands)

	2003	2002
Admitted Assets		
Investments:		
Fixed maturities	$ 18,933,635	$ 15,298,557
Common and preferred stocks	1,433,992	1,218,348
Investments in affiliates	2,893,627	3,167,485
Cash and short-term investments	973,788	1,640,453
Companies occupied properties	250,319	217,557
Other invested assets	680,270	503,357
Total cash and invested assets	25,165,631	22,045,757
Premiums receivable, net	3,446,579	3,136,241
Deferred tax asset, net	635,086	540,391
Reinsurance recoverable on paid losses, net	403,028	468,899
Receivable from affiliates	161,004	30,662
Funds held by affiliates and other reinsurers	681,554	635,464
Other admitted assets	890,003	878,784
Total admitted assets	$ 31,382,885	$ 27,736,198
Liabilities and Surplus		
Liabilities:		
Unpaid claims	$ 13,384,118	$ 12,450,689
Unpaid claim adjustment expenses	2,615,366	2,372,924
Unearned premiums	3,835,261	3,225,672
Other liabilities and deposits	966,165	1,309,915
Funds held under reinsurance contracts	2,313,427	1,912,184
Ceded reinsurance premiums payable	632,047	603,057
Taxes, licenses and fees accrued	401,783	414,187
Federal income taxes accrued	15,312	159,458
Policyholder dividends accrued	3,508	56,579
Total liabilities	24,166,987	22,504,665
Surplus:		
Surplus notes	1,141,346	1,141,183
Special and other surplus funds	1,115,597	1,167,165
Contributed capital	1,476,460	106,647
Unassigned surplus	3,482,495	2,816,538
Total surplus	7,215,898	5,231,533
Total liabilities and surplus	$ 31,382,885	$ 27,736,198

See accompanying notes to the combined statutory basis financial statements

Liberty Mutual Insurance Company Pool

Combined Statutory Basis Statements of Income

For the Years Ended December 31, 2003 and 2002

(dollars in thousands)

	2003	2002
Premiums earned	$ 9,829,922	$ 7,919,283
Claims	6,529,807	5,435,146
Claim adjustment expenses	1,794,353	1,301,492
Underwriting and other expenses	1,974,630	1,548,150
Premium and other taxes and assessments	437,185	328,929
Total underwriting expenses	10,735,975	8,613,717
Underwriting loss before dividends	(906,053)	(694,434)
Policyholder dividends	(2,401)	64,876
Underwriting loss	(903,652)	(759,310)
Net investment income	1,268,441	1,223,210
Realized investment gains, net	156,283	204,351
Other loss, net	(294,298)	(133,647)
Income before income taxes	226,774	534,604
Federal and foreign income tax (benefit) expense	(94,626)	23,827
Net income	$ 321,400	$ 510,777

See accompanying notes to the combined statutory basis financial statements

Liberty Mutual Insurance Company Pool

Combined Statements of Changes in Statutory Surplus

For the Years Ended December 31, 2003 and 2002

(dollars in thousands)

	2003	2002
Statutory surplus, beginning of year	$ 5,231,533	$ 5,780,220
Add (deduct):		
Net income	321,400	510,777
Change in net unrealized capital gains (losses):		
From unconsolidated subsidiaries	234,392	(168,316)
From non-affiliated securities	323,519	(798,139)
Contributed capital	381,859	91,647
Change in non-admitted assets	43,746	512,724
Change in net admitted deferred tax asset	94,695	(621,428)
Dividends paid	-	(81,647)
Other surplus changes, net	584,754	5,695
Statutory surplus, end of year	$ 7,215,898	$ 5,231,533

See accompanying notes to the combined statutory basis financial statements

Liberty Mutual Insurance Company Pool

Combined Statutory Basis Statements of Cash Flow

For the Years Ended December 31, 2003 and 2002

(dollars in thousands)

	2003	2002
Cash provided:		
From operations:		
Premiums collected	$ 9,851,638	$ 8,309,867
Investment income and other income, net	1,738,674	1,227,449
Claim and claim adjustment expenses	(7,511,690)	(7,540,493)
Underwriting and other expenses, net	(2,997,829)	(1,646,379)
Net cash provided by operations	1,080,793	350,444
From investments sold and matured:		
Fixed maturities	12,939,220	9,133,111
Common and preferred stocks	1,413,097	2,019,014
Investments in affiliates	752,787	104,327
Other investments	410,430	48,072
Cash provided by investments	15,515,534	11,304,524
Capital and paid in surplus	381,859	91,647
Total cash provided	16,978,186	11,746,615
Cash applied:		
Cost of investments purchased:		
Fixed maturities	14,730,539	9,099,702
Common and preferred stocks	1,340,584	1,797,700
Investments in affiliates	172,761	-
Other investments	771,372	260,728
Cash applied to investments	17,015,256	11,158,130
Surplus notes and capital notes	(324)	-
Borrowed funds received	404,844	207,464
Dividends to stockholders	-	81,647
Other applications	225,075	104,032
Other, net	629,595	393,143
Total cash applied	17,644,851	11,551,273
Net (decrease) increase in cash and short-term investments	(666,665)	195,342
Cash and short-term investments, beginning of year	1,640,453	1,445,111
Cash and short-term investments, end of year	$ 973,788	$ 1,640,453

See accompanying notes to the combined statutory basis financial statements

LIBERTY MUTUAL INSURANCE COMPANY POOL

Notes to Combined Statutory Basis Financial Statements

(dollars in thousands)

(1) Summary of Significant Accounting Policies

(a) Organization

The accompanying combined statutory financial statements of the Liberty Mutual Insurance Company Pool ("the Companies") include the results of the following insurers:

	NAIC #	Pooling %	State of Domicile
Liberty Mutual Insurance Company (LMIC)	23043	63.20%	Massachusetts
Employers Insurance Company of Wausau (EICOW)	21458	16.00%	Wisconsin
Liberty Mutual Fire Insurance Company (LMFIC)	23035	10.00%	Massachusetts
Liberty Insurance Corporation (LIC)	42404	6.00%	Illinois
Golden Eagle Insurance Corporation (GEIC)	10836	2.50%	California
Montgomery Mutual Insurance Company (MMIC)	14613	0.80%	Maryland
Wausau Business Insurance Company (WBIC)	26069	0.40%	Wisconsin
Wausau General Insurance Company (WGIC)	26425	0.40%	Wisconsin
Wausau Underwriters Insurance Company (WUIC)	26042	0.40%	Wisconsin
LM Insurance Corporation (LM Ins Corp)	33600	0.20%	Iowa
The First Liberty Insurance Corporation (FLIC)	33588	0.10%	Iowa
Liberty Lloyds of Texas Insurance Company (Lloyds)	11041	0.00%	Texas
Liberty Insurance Company of America (LICA)	10337	0.00%	Illinois
Liberty Personal Insurance Company (LPIC)	11746	0.00%	Michigan
Liberty Surplus Insurance Corporation (LSIC)	10725	0.00%	New Hampshire
Liberty County Mutual Insurance Company (LCMIC)	19544	0.00%	Texas
Liberty Insurance Underwriters, Inc. (LIU)	19917	0.00%	New York
Colorado Casualty Insurance Company (CCIC)	41785	0.00%	Colorado
Bridgefield Employers Insurance Company (BEIC)	10701	0.00%	Florida
Bridgefield Casualty Insurance Company (BCIC)	10335	0.00%	Florida
Merchants and Business Men's Mutual Insurance Co. (M&B)	14486	0.00%	Pennsylvania
Prudential Property and Casualty Insurance Company (PruPac)	32352	0.00%	Indiana
Prudential General Insurance Company (PruGen)	36447	0.00%	Delaware
Prudential Commercial Insurance Company (PruCom)	36439	0.00%	Delaware

The above insurers directly or indirectly participate in an intercompany pooling agreement (the "Liberty Pool") led by LMIC. All of the Companies are direct or indirect wholly-owned subsidiaries of Liberty Mutual Group Inc. ("LMGI"). The Companies provide most types of property and casualty insurance, fidelity and surety bonds, and insurance-related services for individuals, businesses, government units, and associations.

In 2001, LMIC reorganized into a stock insurance company as part of an overall conversion to a mutual holding company structure. LMIC formed as its ultimate parent, Liberty Mutual Holding Company Inc. ("LMHC"), a Massachusetts mutual holding company. 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) LMGI which is a direct wholly-owned subsidiary of LMHC MA and the direct parent of LMIC. In 2001, Employers Insurance of Wausau A Mutual Company ("EIOW") reorganized into EICOW, a stock insurance company, 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").

In March 2002, the final step in a series of reorganization transactions was completed in which (a) EICOW MHC merged with LMHC, with LMHC as the surviving entity, and EICOW became a wholly-owned stock subsidiary of LMGI; and (b) LMFIC reorganized from a Massachusetts mutual insurance company to a Massachusetts stock insurance company and LMFIC became a wholly-owned stock subsidiary of LMGI.

(b) ***Basis of Presentation***
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.

The accompanying 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").

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 National Association of Insurance Commissioners ("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 policyholders' surplus for those designated as available-for-sale.

All single class and multi-class mortgage-backed/asset-backed securities (e.g., CMOs) are adjusted for the effects of changes in prepayment assumptions on the related accretion of discount or amortization of premium of such securities using either the retrospective or prospective methods. If it is determined that a decline in fair value is other than temporary, the cost basis of the security is written down to the undiscounted estimated future cash flows. For GAAP purposes, all securities, purchased or retained, that represent beneficial interests in securitized assets (e.g., CMO, CBO, CDO, CLO, MBS and ABS securities), other than high credit quality securities, are adjusted using the prospective method when there is a change in estimated future cash flows. If it is determined that a decline in fair value is other-than-temporary, the cost basis of the security is written down to the discounted fair value. If high credit quality securities are adjusted, the retrospective method is used.

Derivative instruments that meet the criteria of an effective hedge are valued and reported in a manner that is consistent with the hedged asset or liability. Embedded derivatives are not accounted for separately from the host contract. Under GAAP, the effective and ineffective portions of a single hedge are accounted for separately, an embedded derivative within a contract that is not clearly and closely related to the economic characteristics and risk of the host contract is accounted for separately from the host contract and valued and reported at fair value. The change in fair value for cash flow hedges is credited or charged directly to a separate component of equity rather than to income as required for fair value hedges.

Undistributed results of limited partnerships are reflected in unrealized gains on a statutory basis while under GAAP, undistributed earnings are reflected in net investment income or unrealized gains, depending on how the limited partnerships account for unrealized gains.

Subsidiaries: The accounts and operations of the Companies' subsidiaries are not consolidated with the accounts and operations of the Companies as would be required under GAAP.

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. Goodwill is an admitted asset subject to an aggregate limitation of 10% of the capital and surplus in the most recently filed annual statement excluding EDP equipment, operating system software, net deferred tax assets and net positive goodwill. Goodwill is amortized on a straight-line basis over a period not to exceed ten years and reflected as a component of unrealized capital gain or loss for unconsolidated subsidiaries and other surplus changes. Under GAAP, goodwill is not amortized but is subject to an assessment for impairment on an annual basis, or more frequently if circumstances indicate that a possible impairment has occurred.

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 incurred to the extent the amount does not exceed actual acquisition costs, rather than being deferred and amortized with deferred policy acquisition costs, as required under GAAP. Any excess commission is deferred and recognized over the policy term consistent with GAAP.

Nonadmitted Assets: Certain assets are designated as "nonadmitted," principally premiums receivable greater than ninety days past-due, furniture and equipment, deferred tax assets in excess of statutory limitations, goodwill in excess of statutory limitations, other intangible assets, and any other asset not specifically identified as an admitted asset within the NAIC Accounting Practices and Procedures Manual are excluded from the accompanying balance sheets and charged or credited directly to unassigned surplus. Under GAAP, such assets are included in the balance sheet, net of any valuation allowance required.

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

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: A liability for reinsurance balances has been established for unsecured unearned premiums and unpaid losses ceded to reinsurers not authorized to transact business in certain states of domicile ("unauthorized reinsurance"). Changes to those amounts are credited or charged directly to unassigned surplus. Under GAAP, an allowance for amounts deemed uncollectible would be established through a charge to earnings.

LIBERTY MUTUAL INSURANCE COMPANY POOL

Notes to Combined Statutory Basis Financial Statements

(dollars in thousands)

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. Under GAAP, such gains are deferred and recognized in income using the interest method over the period the underlying reinsured claims are paid.

Deferred Income Taxes: 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 capital and surplus excluding any net deferred tax assets, EDP equipment and operating software, and any net positive goodwill ("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 income taxes. Under GAAP, state income 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. 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 when approved to be paid by the Commissioner of Insurance for the Commonwealth of Massachusetts. Under GAAP, surplus notes are reported as debt and the associated interest is reported as interest expense.

Guaranty Funds and Other Assessments: The Companies are subject to guaranty funds and other assessments by the states in which it writes business. Guaranty funds and other assessments are 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 Other assessments should be accrued either at the time of assessments or in the case of premium based assessments, at the time the premiums are written, or, in the case of loss based assessments, at the time the losses are incurred. Under GAAP, the assessment is typically accrued when premiums are written because the assessment generally is based on prospective premium writings.

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

The effects of the foregoing variances from GAAP on the accompanying combined statutory basis financial statements have not been determined, but are presumed to be material.

(c) *Investment Securities*

(dollars in thousands)

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, using the interest method. Unaffiliated common stocks are carried at market value as determined by the NAIC Securities Valuation Office (SVO). Preferred stocks are carried at cost or market in accordance with the SVO Manual. There are no restrictions on common or preferred stock.

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. Non-investment grade mortgage-backed/asset-backed securities are stated at the lower of amortized value or fair value.

Investments in affiliated common stock of insurers and noninsurers are generally carried on the subsidiaries' underlying statutory equity basis and GAAP equity basis, respectively. The net change in the subsidiaries' equity is included in the change in net unrealized capital gains or losses. Investments in venture capital limited partnerships are carried on the equity method. Dividends or distributions received from affiliates are recognized in investment income when declared to the extent that they are not in excess of the undistributed accumulated earnings attributable to the Companies' investment in affiliated common stock. Dividends or distributions declared in excess of the undistributed accumulated earnings attributable to the affiliated entity reduces the carrying amount of the Companies' investment.

Short-term investments include investments with remaining maturities of one year or less at the time of acquisition.

Company-occupied properties are carried at depreciated cost. Depreciation is calculated on the straight-line basis over the estimated useful lives of the properties.

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 along with any adjustment for deferred federal income taxes. 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's financial condition. Unrealized losses that are other-than-temporary are recognized in earnings.

(d) *Fair Values of Financial Instruments*
The Companies have used the following methods and assumptions in estimating the fair value 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.

Funds held under reinsurance contracts (asset or liability): The carrying amounts reported in the balance sheets for these instruments approximate their fair values.

(e) *Securities Lending*
The Companies engage in securities lending activities whereby certain investment securities are loaned to other institutions for short periods of time. The Companies generally receive cash or short-term investments collateral from the borrower, equal to or in excess of 102% of the market value of the loaned securities, and reinvests the cash collateral in short-term investments. The loaned securities remain a recorded asset of the Companies, however, the Companies record a liability for the amount of collateral held, representing its obligation to return the collateral related to the loaned securities.

(f) *Premiums*
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.

(g) *Premium Deficiency Reserves*
When the anticipated losses, loss adjustment expenses, commissions, other acquisition costs and maintenance costs that have not previously been expensed exceed the recorded unearned premium reserve, future installment premiums on existing policies, and anticipated investment income on existing policies, a premium deficiency reserve is established.

(h) *Reinsurance*
Prospective reinsurance premiums, losses, and loss adjustment expenses are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

For reinsurance contracts that do not transfer insurance risk or are with unaffiliated companies and transfer risk, but are retroactive, the cash transactions between the ceding and assuming companies are reflected in the balance sheet as a deposit. Other income or loss is recognized when cash is transferred subsequent to the depletion of the deposit or through the elimination of any remaining deposit upon the completion of the contract. The amount of the deposit asset (or liability) is adjusted by calculating the effective yield on the deposit to reflect actual payments to date and expected future payments with a corresponding credit or charge to interest income or expense.

(i) ***Losses and Loss Adjustment Expenses Reserves***
The Companies have recorded reserves for unpaid claims and claim adjustment expenses covering events that occurred in 2003 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. Although considerable variability is inherent in such estimates, management believes the reserves for claims and claim adjustment expenses are adequate. Reserve estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known. 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, the long-term disability portion of disability claims as permitted by insurance regulations in certain states and certain asbestos settlements. Reserves are reduced for estimated amounts of salvage and subrogation, deductibles recoverable from policyholders and amounts recoverable under reinsurance contracts.

(j) ***Dividends***
Policyholder dividends are recognized when declared rather than over the term of the related policies.

For domestic property-casualty insurance, certain insurance contracts, primarily workers' compensation policies are issued with dividend plans, to be paid subject to approval by the insurer's board of directors. Such policies approximate 2% of domestic property-casualty insurance premiums written at December 31, 2003 and 2002.

(k) ***Foreign Exchange***
The Companies converts foreign currencies to U.S. dollars 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.

(l) ***Intercompany Pooling Arrangement***
Under the terms of the pooling agreement, the sequence of transactions is as follows:

After processing its external reinsurance, except for WBIC, WGIC and WUIC, each Affiliated Pool Company cedes its remaining net underwriting activity to the lead company. WBIC, WGIC and WUIC cede 100% of its direct underwriting activity to EICOW. With the exception of PruGen and PruCom, all fronted companies, after external reinsurance, cede its net underwriting activity to the lead company. PruGen and PruCom cede its net underwriting activity to PruPac. After recording the assumed affiliate transactions noted above, the lead company records 100% of its external assumed and ceded reinsurance activity. The lead company's remaining underwriting activity, after processing all internal and external reinsurance, is retroceded to the pool members in accordance with each company's pool participation percentage, as noted above. There were no members that are parties to reinsurance agreements with non-affiliated reinsurers covering business subject to the pooling agreement and that have a contractual right of direct recovery from the non-affiliated reinsurer per the terms of such reinsurance agreements. There were no discrepancies between entries regarding pooled business on the assumed and ceded reinsurance schedules of the lead company and corresponding entries on the assumed and ceded reinsurance schedules of other pooled participants. The write off of uncollectible reinsurance is pooled and the provision for reinsurance is recognized by the entity placing the outbound external reinsurance.

M&B (0.2% participation in 2002) no longer assumes results from the pool. LMIC's pool participation percentage increased accordingly by 0.2%, to 63.2%. Montgomery Indemnity Insurance Company (0.1% participation in 2002) merged with its parent MMIC. MMIC's pool participation percentage increased accordingly by 0.1%, to 0.8%. Effective November 1, 2003, LMIC entered into a 100% Quota Share Reinsurance Agreement with PruPac.

(m) ***Related Party Transactions***
In addition to pooling underwriting results and other income and expenses, the Companies share in related balance sheet activity. LMIC has service agreements with its subsidiaries and several affiliated companies. Under the agreements, LMIC provides its affiliated companies with office space, supplies, equipment, telephone and wire services, the use of computers and similar machines and services of personnel employed by LMIC. Services included but are not limited to the following: claims handling, credit and collections, sales policy production, underwriting, investment management, and a variety of computer activities. LMIC is reimbursed for the costs of all services which it provides under these agreements.

Pursuant to an Employee Benefit Plans Cost-Sharing Agreement, LMIC has agreed to reimburse LMGI for certain costs related to one or more employee benefit or welfare plans covering current or past employees of LMIC or its affiliates which have been transferred to LMGI or which may be transferred to LMGI in the future. The amount of the reimbursement is the required contributions to the pension plans and with respect to other plans, the benefits incurred on the Companies' behalf.

(n) ***Reclassifications***
Certain 2002 amounts in the Companies' combined statutory basis financial statements have been reclassified to conform to the 2003 financial statement presentation.

LIBERTY MUTUAL INSURANCE COMPANY POOL

Notes to Combined Statutory Basis Financial Statements

(dollars in thousands)

(2) Investments

(a) ***Fixed Maturities***

The amortized cost and fair values of fixed maturity securities at December 31, 2003 and 2002, are as follows:

December 31, 2003	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$ 1,854,666	$ 28,597	$ (14,146)	$ 1,869,117
Mortgage and asset-backed securities of government and corporate agencies	7,675,652	211,124	(41,787)	7,844,989
State and political subdivisions	608,789	54,146	(6,528)	656,407
Corporate and other	8,794,528	516,879	(50,960)	9,260,447
Total fixed maturities	$ 18,933,635	$ 810,746	$ (113,421)	$19,630,960

December 31, 2002	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$ 664,987	$ 43,771	$ (1,113)	$ 707,645
Mortgage and asset-backed securities of government and corporate agencies	6,567,924	360,567	(26,239)	6,902,252
State and political subdivisions	552,784	59,448	(314)	611,918
Corporate and other	7,512,862	489,254	(16,403)	7,985,713
Total fixed maturities	$15,298,557	$ 953,040	$ (44,069)	$ 16,207,528

The amortized cost and fair values of fixed maturity securities at December 31, 2003, by contractual maturity, are as follows:

	Amortized Cost	Fair Value
Due to mature:		
One year or less	$ 478,354	$ 502,174
Over one year through five years	2,326,213	2,441,842
Over five years through ten years	3,709,396	3,936,837
Over ten years	4,744,020	4,905,118
Mortgage and asset-backed securities	7,675,652	7,844,989
Total fixed maturities	$ 18,933,635	$ 19,630,960

Expected maturities may differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

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Notes to Combined Statutory Basis Financial Statements

(dollars in thousands)

(b) ***Common and Preferred Stocks and Other Investments***
The cost of common and preferred stocks and other investments at December 31, 2003 and 2002 was as follows:

	2003	2002
Common stocks	$ 775,893	$ 780,948
Preferred stocks	125,325	104,776
Other investments	634,677	468,024
	$ 1,535,895	$ 1,353,748

(c) ***Derivatives***
In 2002, the Companies were party to derivative contracts in the form of equity swap contracts. These contracts were terminated during the third quarter of 2002. The purpose of the contracts was 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 the S&P 500 Index. The Companies agreed with counter parties to exchange, at quarterly intervals, the net performance differential of the S&P 500 Index and a notional portfolio of common stocks. Changes in the fair value were recognized in income from continuing operations.

(d) ***Investments in Affiliates***
Investments in affiliates consist primarily of the Companies' investments in insurance, international, and financial services subsidiaries. The Companies' equity in the net assets of subsidiaries is summarized as follows at December 31, 2003 and 2002:

	2003	2002
Equity in net assets of subsidiaries	$ 2,893,627	$ 3,160,510
Surplus notes issued by affiliates	-	6,975
Companies' investment in affiliates	$ 2,893,627	$ 3,167,485

	2003	2002
Total assets	$ 20,305,034	$ 18,164,493
Total liabilities	(17,411,407)	(14,991,983)
Non-admitted goodwill	-	(12,000)
Companies' equity in net assets	$ 2,893,627	$ 3,160,510

(dollars in thousands)

Equity in net assets of unconsolidated subsidiaries is distributed as follows at December 31, 2003 and 2002:

	2003	2002
International subsidiaries	$ 927,367	$ 1,002,634
Liberty Insurance Holdings Property-Casualty Companies	1,180,721	888,965
Liberty Property-Casualty Holdings, Inc.	-	510,249
Wausau Service Corp.	17,376	11,178
Liberty Northwest Insurance Corporation	192,357	171,470
Liberty Life Assurance Company of Boston	142,699	124,846
Other subsidiaries and non-admitted goodwill	433,107	451,168
Equity in net assets of unconsolidated subsidiaries	$ 2,893,627	$ 3,160,510

The remaining unamortized goodwill and other intangible asset balances included as a component of the Companies' investments in unconsolidated subsidiaries at December 31, 2003 and 2002 were $272,908 and $289,770, respectively, with corresponding goodwill amortization of $42,850 and $38,977 during 2003 and 2002, respectively.

In October 2003, the Companies received dividends in the amount of $559,859 from its majority owned subsidiary, Liberty Mutual Equity Corporation, LLC. $203,438 of the dividend was recorded as dividend income within the combined statutory basis statement of income and $356,421 was recorded as a reduction in the book value of the subsidiary.

In July 2003, the Companies received dividends in the amount of $247,608 from its majority owned subsidiary, Liberty Massachusetts Trust that was recorded as a reduction in the book value of the subsidiary.

After consideration of the Intercompany Pooling Agreement, the Companies sold $134,441 as of December 31, 2002 of agents balances without recourse to LMGI. As a result of the sales, the Companies realized losses of $28,610 for the year ended December 31, 2002. The agreement was not renewed in 2003.

(e) *Realized Investment Gains (Losses)*
Realized investment gains (losses) were as follows in 2003 and 2002:

	2003	2002
Fixed maturities:		
Gross gains	$297,148	$ 311,075
Gross losses	(90,626)	(152,892)
Common and preferred stocks:		
Gross gains	159,795	455,490
Gross losses	(113,279)	(284,144)
Other investments:		
Gross gains	11,520	45,729
Gross losses	(108,275)	(170,907)
	$156,283	$ 204,351

(dollars in thousands)

Proceeds from sales of fixed maturity investments during 2003 and 2002, were $6,747,590 and $6,832,892, respectively.

Realized capital losses included other-than-temporary impairment write-downs of $157,211 and $264,202 in 2003 and 2002, respectively.

The following table shows a schedule of the Companies' unrealized losses and fair value by security type by duration of potential impairment at December 31, 2003.

	Less Than 12 Months		Greater Than 12 Months	
	Unrealized Losses	Fair Value of Investments with Unrealized Losses	Unrealized Losses	Fair Value of Investments with Unrealized Losses
U.S. Treasury Securities	$ (14,146)	$ 572,339	$ -	$ -
Mortgage and asset-backed securities of government and corporate agencies	(37,764)	2,166,079	(4,023)	67,705
State and political subdivisions	(6,426)	289,770	(102)	2,475
Corporate and other	(50,388)	1,733,404	(572)	8,039
Equities	(19,284)	95,054	(14,814)	51,565
Total	$ (128,008)	$ 4,856,646	$ (19,511)	$ 129,784

The majority of unrealized losses reported in the corporate and other category involve holdings where the market value is less than 10% below book value. Also included in these unrealized losses are amounts relating to securities issued and guaranteed by agencies of the U.S. Government.

The equity holdings reflecting unrealized losses were not deemed to be impaired on an other-than-temporary basis under the Companies' impairment policy.

The unrealized losses on the securities above are subject to review during each quarterly impairment analysis cycle.

(f) ***Net Investment Income***
Net investment income for the years ended December 31, 2003 and 2002, consisted of:

	2003	2002
Fixed maturities	$ 1,080,647	$ 1,021,018
Common and preferred stocks	303,156	327,051
Short-term investments	16,340	17,618
Other	89,259	59,899
Gross investment income	1,489,402	1,425,586
Investment and interest expense	(220,961)	(202,376)
Net investment income	$ 1,268,441	$ 1,223,210

(dollars in thousands)

(g) ***Statutory Deposits***
At December 31, 2003 and 2002, fixed maturity securities carried at $4,312,961 and $4,000,903, respectively, were on deposit with state insurance departments to satisfy regulatory requirements.

(h) ***Securities Loaned***
At December 31, 2003, the market value of fixed maturity securities loaned was approximately $171,548. Cash and short-term investments received as collateral in connection therewith at December 31, 2003 was approximately $110,124, while non-cash collateral received in connection therewith was approximately $64,723.

(3) Discontinued Operations
In September 2003, LMHC's Board of Directors approved a plan to dispose of the operations of its Canadian personal lines property and casualty operations (automobile and homeowners insurance). The transaction is expected to close in the second quarter of 2004. As a result of the impending sale, the goodwill for Liberty Insurance Company of Canada, a wholly-owned subsidiary of LMIC, was written off in 2003. The goodwill impairment recorded was $18,353 and recognized as a realized loss in the accompanying combined statutory basis statement of income.

The results of the discontinued operations of the Canadian personal lines property and casualty operations included in the Combined Statutory Basis Statements of Income are as follows:

	2003	2002
Premiums earned	$ 194,968	$ 152,929
Income (loss) before income taxes	8,953	(21,347)
Federal and foreign income tax expense (benefit)	6,827	(649)
Net income (loss)	$ 2,126	$ (20,698)

Total assets and liabilities of the discontinued operations of the Canadian personal lines property and casualty operations included in the Combined Statutory Basis Balance Sheet are as follows:

	2003
Assets:	
Premium and other receivables	$ 81,788
Receivable from affiliates	468,562
Other assets	14,220
Total assets	$ 564,570
Liabilities:	
Unpaid claims and claim adjustment expense	$ 239,989
Unearned premiums	111,170
Other liabilities	3,413
Total liabilities	$ 354,572

(4) Acquisitions
On October 31, 2003, LMGI acquired all the outstanding stock of Prudential Property and Casualty Insurance Company, Prudential General Insurance Company and Prudential Commercial Insurance Company (collectively referred to as "PruPac") from Prudential Financial. The acquisition includes

PruPac's U.S. personal lines property and casualty business and operations in 47 states, excluding the New Jersey business and also excluding the specialty automobile and affinity business.

In connection with the acquisition, LMGI acquired the discontinued channels business of PruPac. The discontinued channels business includes certain risks associated with the independent agent and PruPac agency acquired business. Prudential Financial, Inc., through its wholly-owned subsidiary, Vantage Casualty Insurance Company ("Vantage"), reinsures and guarantees 100% of the first $50,000 and 75% of the next $60,000 of the net operating losses. To support the surplus of LMGI in writing the discontinued channels business, Prudential Financial provided LMGI with a $30,000 cash payment against a note in the amount of $30,000 that matures on December 31, 2008 and accrues interest at a rate of 5% annually. The note is repaid annually in amounts corresponding to the reduction in the Company's gross written premium in the discontinued channels business.

As noted in Note 9, LMGI transferred the net assets of PruPac to LMIC on November 1, 2003. However, the results of operations of PruPac for the twelve months ended December 31, 2003 are included in the accompanying combined statutory basis statement of income.

(5) Unpaid Claims and Claim Adjustment Expenses

The Companies establish reserves for payment of claims and claim adjustment expenses that arise from the policies issued. As required by applicable accounting rules, no reserves are established until a loss, including a loss from a catastrophe, occurs. The Companies' reserves are segmented into three major categories: reserves for reported claims (estimates made by claims adjusters); incurred but not reported claims reserves ("IBNR") representing reserves for unreported claims and supplemental reserves for reported claims; and reserves for the costs to settle claims. The Companies establish their reserves net of salvage and subrogation by line of business or coverage and year in which losses occur.

Establishing loss reserves, including loss reserves for catastrophic events that have occurred, is an estimation process. Many factors can ultimately affect the final settlement of a claim and, therefore, the necessary reserve. Changes in the law, results of litigation, medical costs, the costs of repair materials and labor rates can all affect ultimate claim costs. In addition, time can be a critical part of reserving determinations since the longer the span between the incidence of a loss and the payment or settlement of the claim, the more variable the ultimate settlement can be. Accordingly, "short-tail" claims, such as property damage claims, tend to be easier to estimate than "long-tail" claims, such as workers compensation or general liability claims.

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.

Catastrophes are an inherent risk of the property-casualty insurance business and have contributed to material period-to-period fluctuations in the Companies' results of operations and financial position. The level of catastrophe losses experienced in any period cannot be predicted and can be material to the results of operations and financial position of the Companies.

LIBERTY MUTUAL INSURANCE COMPANY POOL

Notes to Combined Statutory Basis Financial Statements

(dollars in thousands)

Catastrophe losses incurred during the years ended December 31, 2003 and 2002 were $112,730 and $110,081, respectively, and related to natural disasters, weather-related events, California wildfires, and claims arising from the terrorist attack of September 11, 2001. The September 11, 2001 exposure arises primarily from property, workers compensation, and reinsurance contracts. Although uncertainty about the final loss amount still exists, the claims are reasonably estimable and such estimate has been recorded. The cumulative pre-tax impact, net of reinsurance, of the September 11, 2001 exposure is approximately $106,230.

Activity in property and casualty unpaid claims and claim adjustment expenses of the Companies', net of reinsurance recoverables on unpaid claims and claim adjustment expenses, is summarized as follows:

	2003	2002
Balance as of January 1	$ 14,823,613	$ 15,414,736
New company affiliations	711,426	4,258
Adjusted balance as of January 1	15,535,039	15,418,994
Incurred attributable to:		
Current year	7,540,060	6,051,081
Prior years:		
Discount accretion	66,000	48,000
All other	718,100	637,557
Total incurred	8,324,160	6,736,638
Paid attributable to:		
Current year	4,508,845	2,628,196
Prior years	3,435,080	4,710,383
Total paid	7,943,925	7,338,579
Net adjustment due to foreign exchange	84,210	6,560
Balance as of December 31	$ 15,999,484	$ 14,823,613

In 2003 and 2002, incurred claims and claim adjustment expenses attributable to prior years were primarily due to rising loss trends in commercial lines including workers' compensation and asbestos and environmental exposures.

The tabular discounting on these workers' compensation claims is based upon Unit Statistical Plan tables as approved by the respective states and generally ranges from 3.5% to 4.0% for the years ended December 31, 2003 and 2002. Unpaid claims and claim adjustment expenses at December 31, 2003 and 2002 include liabilities of $3,432,900 and $3,353,349 at discounted values of $2,125,910 and $2,083,141, respectively.

The tabular discounting on disability claims is based on the 1987 Commissioners Group Disability Table (CGDT) at annual discount rates varying from 5.0% to 6.0% in 2003 (5.0% to 7.0% in 2002).

Unpaid claims at December 31, 2003 and 2002 include liabilities of $803,241 and $735,407, carried at discounted values of $575,580 and $510,792, respectively.

For certain commercial lines of insurance, the Companies offer experience-rated insurance contracts whereby the ultimate premium is dependent upon the claims incurred. At December 31, 2003 and 2002, the Companies held $3,353,210 and $3,916,357, respectively, of unpaid claims and claim adjustment expenses related to experience-rated contracts. Premiums receivable included accrued retrospective premiums and unbilled audit premiums of $796,590 and $699,471 at December 31, 2003 and 2002, respectively, $83,960 and $74,644, respectively, have been designated as non-admitted assets and charged to surplus.

Unpaid claims and claim adjustment expenses are recorded net of anticipated salvage and subrogation of $460,260 and $353,121 as of December 31, 2003 and 2002, respectively.

At December 31, 2003 and 2002, the Companies recorded reserve credit for large dollar deductibles on unpaid claim losses of $2,071,610 and $1,844,437, respectively. The Companies' billed and recoverable was $235,413 and $216,024 as of December 31, 2003 and 2002, respectively.

(6) Asbestos and Environmental Reserves

The Companies have exposure to asbestos and environmental claims that emanate principally from general liability policies written prior to the mid- 1980's. In establishing the Companies' asbestos and environmental reserves, the Companies estimate case basis reserves for anticipated losses and bulk reserves for loss adjustment expenses and incurred but not reported losses. The Companies maintained casualty excess of loss reinsurance during the relevant periods. The reserves are reported net of expected recoveries from reinsurers and include any reserves reported by ceding reinsurers on assumed reinsurance contracts.

Upon their de-affiliation from the Nationwide Group and re-affiliation with the Companies, EICOW, WBIC, WGIC and WUIC entered into ceded reinsurance contracts whereby Nationwide Indemnity Company assumed full responsibility for obligations on certain policies with effective dates prior to January 1, 1986, including all asbestos and environmental exposures.

Factors Contributing to Uncertainty in Establishing Adequate Reserves

The process of establishing reserves for asbestos and environmental claims is subject to greater uncertainty than the establishment of reserves for liabilities relating to other types of insurance claims. A number of factors contribute to this greater uncertainty surrounding the establishment of asbestos and environmental reserves, including, without limitation: (i) the lack of available and reliable historical claims data as an indicator of future loss development, (ii) the long waiting periods between exposure and manifestation of any bodily injury or property damage, (iii) the difficulty in identifying the source of asbestos or environmental contamination, (iv) the difficulty in properly allocating liability for asbestos or environmental damage, (v) the uncertainty as to the number and identity of insureds with potential exposure, (vi) the cost to resolve claims, and (vii) the collectibility of reinsurance.

The uncertainties associated with establishing reserves for asbestos and environmental losses and loss adjustment expenses are compounded by the differing, and at times inconsistent, court rulings on environmental and asbestos coverage issues involving: (i) the differing interpretations of various insurance policy provisions and whether asbestos and environmental losses are or were ever intended to be covered, (ii) when the loss occurred and what policies provide coverage, (iii) whether there is an insured obligation to defend, (iv) whether a compensable loss or injury has occurred, (v) how policy limits are determined, (vi) how policy exclusions are applied and interpreted, (vii) the impact of entities seeking bankruptcy protection as a result of asbestos-related liabilities, (viii) whether clean-up costs are covered as insured property damage, and (ix) applicable coverage defenses or determinations, if any, including the determination as to whether or not an asbestos claim is a products/completed operation claim subject to an aggregate limit and the available coverage, if any, for that claim.

In recent years the Companies, as well as the industry generally, has witnessed a significant increase in the number of asbestos claims being filed, due to a number of variables, including more intensive advertising by lawyers seeking asbestos claimants, and the increasing focus by plaintiffs on new and previously peripheral defendants, attempts to broaden the interpretation of compensable loss, and courts expanding the scope of the coverage.

Uncertainty Regarding Reserving Methodologies
As a result of the significant uncertainty inherent in determining the Companies' asbestos and environmental liabilities and establishing related reserves, the amount of reserves required to adequately fund the Companies' asbestos and environmental claims cannot be accurately estimated using conventional reserving methodologies based upon historical data and trends. As a result, the use of conventional reserving methodologies frequently has to be supplemented by subjective considerations, including managerial judgment.

Effect of Uncertainty in Reserving For Asbestos and Environmental Claims on the Companies' Financial Condition

The methods of determining estimates for reported and unreported losses and establishing resulting reserves and related reinsurance recoverables are periodically reviewed and updated, and adjustments resulting from this review are reflected in income currently.

As a direct result of the significant uncertainties associated with estimating its asbestos and environmental exposures and establishing appropriate levels of reserves, the ultimate liability of the Companies for asbestos and environmental exposures may vary materially from the reserves currently recorded. The Companies and other industry members have and will continue to litigate the broadening judicial interpretation of policy coverage and the liability issues. If the courts continue to expand the scope of the coverage provided, additional liabilities could emerge for amounts in excess of reserves held. This emergence, as well as the other uncertainties noted above, cannot now be reasonably estimated, but could have a material impact on the Companies' future operating results, and financial condition.

In the third quarter of 2003, the Companies completed a ground-up study of asbestos reserves, focusing on the implications of claim and litigation trends and other significant developments, with special attention to major asbestos defendants and non-products claims alleging that the Companies' coverage obligations are not subject to aggregate limits. In addition, as part of this comprehensive ground-up study, the Companies' management expanded its historical methodology in response to recent trends. This included further categorization of policyholders, conducting an examination of recent claim activity from policyholders reporting claims for the first time, and a review of past settlements. As a result of the ground-up study, the Companies increased net loss reserves by $331,000, including a provision for uncollectible reinsurance of $158,000. As payments are made, the allowance is reclassified to other expenses and offset to the corresponding paid loss recoverable allowance.

(dollars in thousands)

The following table summarizes reserve and loss activity for the Companies' asbestos and environmental loss and loss adjustment expenses for the years ended December 31, 2003 and 2002. Gross reserves for both asbestos and environmental are representative of all Liberty companies. Net reserves for asbestos and environmental are allocated based on the Companies' Intercompany Reinsurance Agreement as discussed in Note 1.

	2003	2002		2003	2002
Asbestos Gross:			**Environmental Gross:**		
Beginning reserves	$ 1,666,303	$ 1,465,617	Beginning reserves	$ 564,845	$ 681,700
Acquisitions	15,312	-	Acquisitions	15,312	-
Incurred losses and LAE	542,251	494,293	Incurred losses and LAE	(111,199)	52,735
Calendar year payments	367,587	293,607	Calendar year payments	75,550	169,590
Ending reserves	1,856,279	$ 1,666,303	Ending reserves	$ 393,408	$ 564,845
Asbestos Net:			**Environmental Net:**		
Beginning reserves	$ 960,014	$ 842,963	Beginning reserves	$ 306,459	$ 425,393
Acquisitions	11,917	-	Acquisitions	11,917	-
Incurred losses and LAE	173,000	290,328	Incurred losses and LAE	(8,000)	(10,889)
Calendar year payments	148,429	173,277	Calendar year payments	40,722	108,045
Ending reserves	$996,502	$ 960,014	Ending reserves	$ 269,654	$ 306,459

(7) **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 serves as a servicing carrier for residual market organizations.

(dollars in thousands)

The effects of reinsurance on premiums written and earned for the years ended December 31, 2003 and 2002 were as follows:

	2003		2002	
	Written Premium	Earned Premium	Written Premium	Earned Premium
Direct	$ 12,375,944	$ 12,012,208	$ 10,166,007	$ 9,389,798
Assumed	1,182,962	1,243,075	837,972	815,945
Ceded	(3,666,405)	(3,425,361)	(2,587,728)	(2,286,460)
Net premiums	$ 9,892,501	$ 9,829,922	$ 8,416,251	$ 7,919,283

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

LMIC entered into a reinsurance agreement effective January 1, 1998 with Liberty Life Assurance Company of Boston ("Liberty Life"), an indirect, unconsolidated subsidiary of LMIC, whereby Liberty Life ceded 100% of long and short-term disability business on a funds withheld basis. LMIC assumed premiums earned of $232,156 and $245,371 in 2003 and 2002, respectively, and loss and loss adjustment expense reserves of $706,013 and $681,452 as of December 31, 2003 and 2002, respectively. The assumption resulted statutory net gains of $23,570 and $15,480 in 2003 and 2002, respectively.

LMIC entered into a reinsurance agreement effective January 1, 2003 with St. James Insurance Company, an unconsolidated affiliate of LMIC, whereby LMIC cedes long and short-term disability business on a funds withheld basis. LMIC ceded premiums earned of $203,580 for the year ended December 31, 2003, and loss and loss adjustment expense reserves of $203,580 as of December 31, 2003.

LMIC entered into a quota share reinsurance agreement effective April 1, 2003 with Liberty Bermuda, an indirect, unconsolidated subsidiary of LMIC, whereby LMIC cedes Homeowners, Other Liability and Products Liability on a funds withheld basis. LMIC ceded premiums earned of $147,506 and loss and loss adjustment expenses of $150,494 as of December 31, 2003. The cession resulted a statutory net gain of $13,363 in 2003.

In 2002 and prior, the Companies entered into retroactive reinsurance agreements with unaffiliated entities. The Companies transferred unpaid claim and claim adjustment expenses of $(39,474) and $63,240 and recorded other (expense) income of $(49,021) and $39,758 in 2003 and 2002, respectively. The Companies recorded other (expense) income of $(18,040) and $14,710 under these agreements.

The Companies have an aggregate reinsurance recoverable from Nationwide Indemnity Company in the amount of $1,033,581 and $1,302,437 as of December 31, 2003 and 2002, respectively. The reinsurance recoverable is guaranteed by Nationwide Mutual Insurance Companies. Additionally, the Companies have significant reinsurance recoverable concentration with National Indemnity Company (a Berkshire Hathaway, Inc. subsidiary), North American Specialty Insurance Company (a subsidiary of Swiss Reinsurance Company), and Federal Insurance Company (a Chubb subsidiary) totaling $669,872, $1,229,218 and $322,287, respectively, as of December 31, 2003, net of offsetting liabilities under the contracts.

(8) Debt

The Companies maintain a $600,000 revolving line of credit with Liberty Mutual Capital Corporation ("LMCC"), a wholly owned unconsolidated subsidiary of LMIC. Outstanding borrowings as of December 31, 2003 and 2002 totaled $13,811 and $152,582, respectively. Interest is paid quarterly in arrears based on average borrowings at a variable interest rate. Interest expense incurred related to this agreement was $7,501 and $13,975 in 2003 and 2002, respectively. Interest paid related to this agreement was $7,952 and $14,800 in 2003 and 2002, respectively.

In July 2003, the Companies settled a pound sterling denominated demand note to its indirectly owned subsidiary, Liberty Europe Holdings, Inc. totaling $240,168 (U.S. dollar equivalent). Interest expense incurred related to this agreement was $4,779 and $878 in 2003 and 2002, respectively (U.S. dollar equivalent). Interest paid related to this agreement was $5,621 and $0 in 2003 and 2002, respectively (U.S. dollar equivalent).

The Companies have a demand note payable to its wholly owned subsidiary, Liberty Re (Bermuda) Limited, in the amount of $24,541 and $59,358 as of December 31, 2003 and 2002, respectively. Interest is payable semi-annually on the first day of April and October, computed at LIBOR plus 0.15%.

(9) Capital and Surplus

As of December 31, 2003 and 2002, LMIC and Liberty Fire each had 100,000 shares ($100 par value) authorized, issued and outstanding and EICOW had 5,000,000 shares ($1 par value) authorized, issued, and outstanding. As of December 31, 2003, the Companies have restricted surplus of $1,115,597 resulting from retroactive reinsurance contracts.

On November 1, 2003, the Companies received a capital contribution from its ultimate parent, LMGI in the amount of $589,000. The capital contribution was related to the acquisition of the Prudential Property and Casualty Insurance Company of Indiana, Prudential Commercial Insurance Company of Delaware, and Prudential General Insurance Company of Delaware (collectively referred to as "PruPac"). The related net assets transferred equaled $530,200, $14,600 and $14,200, respectively.

During 2003, the Companies transferred their unfunded deferred compensation plan to LMGI. Following the transfer, the Companies received a capital contribution in the amount of $170,184 from LMGI. The total expense allocated to the Companies under this agreement during the year was $170,184.

During 2003, the Companies transferred the plan sponsorship of certain benefit plans to LMGI. Following the transfer, the Companies received a capital contribution in the amount $279,627 from LMGI. Additionally, the Companies provide certain other postretirement benefits to inactive participants through plans sponsored by LMGI. The Companies have no legal obligation for benefits under these plans subsequent to September 24, 2003. However, the Companies maintain a contingent liability for the Supplemental Income Retirement Plan (SIRP) for inactive participants that did not sign a release of the Companies with respect to the inactive participants benefit payments. The amount of the contingent liability accrued was $34,396 as of December 31, 2003 for the SIRP inactive defined benefits participants. Pursuant to a written agreement, the Companies have agreed to reimburse LMGI for (a) the required contributions to the pension plans and (b) with respect to other plans, the benefits incurred in the Companies' behalf.

(dollars in thousands)

In addition to the capital contributions discussed above, during 2003 the Companies received capital contributions in the amount of $26,628 from LMGI.

Property and casualty insurance companies are subject to certain Risk-Based Capital ("RBC") requirements as specified by the NAIC. Under those requirements, the amount of capital and surplus maintained by a property and casualty insurance company is to be determined based on the various risk factors related to it. At December 31, 2003, the Company exceeds the RBC requirements.

The portion of unassigned funds (surplus) represented or reduced by each item below is as follows:

	Cumulative Decrease in Surplus	2003 Increase in Surplus
Unrealized gains/(losses)	$ (127,063)	$ 557,911
Nonadmitted asset values	(1,280,101)	43,746
Provision for reinsurance	(148,066)	46,260
Total	$ (1,555,230)	$ 647,917

(10) Surplus Notes

Surplus notes represent subordinated debt instruments classified as a component of surplus for statutory accounting purposes. At December 31, 2003 and 2002, the Companies had the following surplus notes outstanding:

	2003	2002
8.200%, $250,000 Notes due May 4, 2007	$ 249,816	$ 249,761
8.500%, $250,000 Notes due May 12, 2025	149,780	149,770
7.875%, $250,000 Notes due October 15, 2026	249,681	249,668
7.697%, $500,000 Notes due October 15, 2097	492,069	491,984
	$ 1,141,346	$ 1,141,183

Payments for interest on and principal of the notes are expressly subordinate to all policyholder claims and other obligations of the Companies. Accordingly, interest and principal payments are contingent upon prior approval of the Commissioner of Insurance of the State of Massachusetts. Interest paid was $91,423 for the years ended December 31, 2003 and 2002.

(11) Federal and Foreign Income Taxes

LMHC, Montgomery, and M&B each file separate Federal income tax returns. Each company files a consolidated Federal income tax return with their respective eligible subsidiaries and affiliated companies. Pursuant to intercompany Federal income tax allocation agreements that each of these companies have with their respective subsidiaries, the consolidated tax liabilities are allocated to each company based on its separate tax liability. Tax benefits are allocated to each company for its portion of net operating losses and carryforwards in the year they are used by the respective consolidated groups. Intercompany tax balances are settled quarterly. A provision is made, where applicable, for taxes on foreign operations.

(dollars in thousands)

As of December 31, 2003 and 2002, the components of the net deferred tax assets and liabilities are as follows:

	2003	2002	Change
Total of gross deferred tax assets	$ 1,916,316	$ 1,907,637	$ 8,679
Total of deferred tax liabilities	(435,211)	(354,579)	(80,632)
Net deferred tax asset	1,481,105	1,553,058	(71,953)
Net deferred tax asset non-admitted	(846,019)	(1,012,667)	166,648
Net admitted deferred tax asset	$ 635,086	$ 540,391	$ 94,695

The Companies have not provided for deferred taxes on unremitted earnings of subsidiaries outside the United States where such earnings are permanently invested. At December 31, 2003, unremitted earnings of foreign subsidiaries were $301,000. If these earnings were distributed in the form of dividends or otherwise, the Companies would be subject to U.S. income taxes less an adjustment for applicable foreign tax credits.

The (benefit) provisions for incurred taxes on earnings for the years ended December 31 are:

	2003	2002
Federal	$ 128,407	$ 181,210
Net operating benefit	(253,717)	(157,383)
Foreign	30,684	-
Federal and foreign income tax (benefit) expense	$ (94,626)	$ 23,827

The Companies' deferred tax assets and liabilities result primarily from discounting of unpaid loss and LAE reserves, limits on unearned premium reserve deductions, deferred compensation deductions, reversal of discount accretion on bonds, investment impairments, fixed asset depreciation differences, unrealized gains, statutory non-admitted assets, as well as net operating loss and tax credit carryforwards.

Effective tax rates differ from the current statutory rate of 35% principally due to the effects of tax-exempt interest, excludible dividend income, discounting of reserves for unpaid losses and loss adjustment expenses, an unearned premium adjustment and revisions to prior year estimates.

The amount of Federal income taxes incurred and available for recoupment in the event of future losses is $85,306 from the current year and none from the preceding year.

As of December 31, 2003, the Companies have a net loss carryforward of $135,364 originating in 2001 and expiring in 2021. The Companies also have an alternative minimum tax credit of $137,670 which does not expire.

The method of federal income tax allocation is subject to a written agreement. Allocation is based upon separate return calculations with credit applied for losses as appropriate. The Companies have the enforceable right to recoup prior year payments in the event of future losses.

(12) Benefit Plans

(a) Pension Plans and Postretirement Benefits

(dollars in thousands)

As discussed in Note 9, certain pension and postretirement obligations and assets were transferred to LMGI and are not included in the Companies' summary of assets and obligations as of December 31, 2003. The Companies continue to sponsor non-contributory defined pension benefit plans covering substantially all Canadian and certain U.S. employees. The benefits and eligibility are based on age, years of service and the employee's compensation, as more fully described in the Plan. As of December 31, 2003, the Companies accrued the benefit obligation in accordance with actuarially determined amounts with an offset to pension accrual costs for the intangible asset amortization.

The Companies' U.S. Postretirement health and life benefit obligations and assets were also transferred to LMGI in September of 2003. Accordingly, the Plan assets and obligations are no longer included in the Companies' summary of assets and obligations as of December 31, 2003. However, the Companies continue to provide certain health care and life insurance benefits for retired Canadian 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, and as more fully defined in the Plan.

The Companies' U.S. employees participate in non contributory defined benefit pension plans sponsored by LMGI. In addition, the Companies provide certain other postretirement benefits to inactive employees through plans sponsored by LMGI. The Companies have no legal obligation for benefits under these plans subsequent to September 24, 2003. LMGI allocates pension amounts to the Companies based on paid amounts. LMGI allocates postretirement amounts to the Companies based on Statutory incurred amounts. LMGI allocated $2,969 of pension expense and $10,372 of postretirement expense to the Companies in 2003.

A summary of assets, obligations, and assumptions of the pension and postretirement benefits are as follows at December 31, 2003 and 2002:

	Pension		Postretirement	
	2003	2002	2003	2002
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 2,136,384	$ 2,036,992	$ 313,389	$ 315,046
Eligibility costs	76,538	86,970	9,733	13,114
Interest costs	107,398	137,537	15,611	21,082
Amendments	-	13,761	-	(23,797)
Actuarial gains or losses	340,543	(32,576)	19,788	12,359
Other	8,153	(3,311)	816	(257)
Transfer to LMGI	(2,510,183)	-	(337,621)	-
Benefits paid	(72,377)	(102,989)	(19,633)	(24,158)
Benefit obligation at end of year	$ 86,456	$ 2,136,384	$ 2,083	$ 313,389

LIBERTY MUTUAL INSURANCE COMPANY POOL

Notes to Combined Statutory Basis Financial Statements

(dollars in thousands)

	Pension		Postretirement	
	2003	2002	2003	2002
Change in plan assets:				
Fair value of plan assets at beginning of the year	$ 1,831,380	$ 2,174,345	$ 20,496	$ 22,178
Actual return on plan assets	209,173	(234,550)	1,487	175
Other	8,517	(4,023)	-	-
Employer contribution	-	-	18,288	22,301
Transfer to LMGI	(1,944,020)	-	(20,612)	-
Benefits paid	(71,758)	(96,785)	(19,659)	(24,158)
Administrative expense	(5,688)	(7,607)	-	-
Fair value of plan assets at end of the year	$ 27,604	$ 1,831,380	$ -	$ 20,496
Reconciliation of prepaid (accrued):				
Funded Status of the plan	$ (58,852)	$ (305,005)	$ (2,083)	$(292,892)
Unrecognized net gain (loss)	29,063	782,226	(463)	46,321
Unamortized prior service cost	519	55,729	-	(29,871)
Unrecognized net transition obligation (asset)	3,683	(625,350)	1,467	100,839
Net amount recognized	$ (25,587)	$ (92,400)	$ (1,079)	$(175,603)
Non-Vested Benefits	$ -	$ 59,613	$ 3,277	$ 121,601
Components of net periodic benefit cost:				
Eligibility costs	$ 76,538	$ 86,970	$ 9,733	$ 13,114
Interest costs	107,398	137,537	15,611	21,082
Expected return on plan assets	(113,497)	(190,050)	(1,230)	(1,774)
Amortization of unrecognized:				
Net loss	44,989	18,011	447	64
Prior service cost	3,719	5,114	(1,405)	(465)
Net transition (asset) obligation	(113,700)	(40,398)	8,453	11,212
Total net periodic benefit cost	$ 5,447	$ 17,184	$ 31,609	$ 43,233
Curtailment loss	179	-	-	-
Total net periodic benefit costs	$ 5,626	$ 17,184	$ 31,609	$ 43,233
Amounts recognized in the statutory financial statements consist of:				
Prepaid benefit costs	$ -	$ 78,842	$ -	$ -
Accrued benefit liability	(33,227)	(131,688)	(1,079)	(175,603)
Minimum pension liability	-	2,190	-	-
Net amount recognized	$ (33,227)	$ (50,656)	$ (1,079)	$ (175,603)
Weighted-average assumptions				
Discount rate	7.00%	7.00%	7.00%	7.00%
Expected return on plan assets	8.50%	9.00%	7.15%	7.15%
Rate of compensation increase	5.10%	5.10%	-	-

The discount rate used in determining the year-end pension and postretirement benefit obligation was 6.50% in 2003 and 7.00% in 2002.

(dollars in thousands)

The average health care cost trend rates are expected to be 9.00% for 2004 and in 2002 were expected to be 10.00% in 2003. The 2003 and 2002 rates are graded to 5.00%. The rates are expected to reach the ultimate trend rate in 2008.

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-percentage point increase	1-percentage point decrease
Effect on total of eligibility cost and interest cost components	$ 51	$ (43)
Effect on accumulated postretirement benefit obligation	$ 185	$ (161)

(b) Thrift-Incentive Plan

The Companies sponsor defined contribution savings plans (401(k) plans) for substantially all U.S. and Canadian employees who meet certain eligibility requirements. During 2003 and 2002, employees could contribute a percentage of their annual compensation on a before and after-tax basis, subject to Federal limitations. In 2003 and 2002, the Companies made matching contributions of $59,359 and $61,000, respectively.

(c) Other Compensation Plans

The Companies provide various performance based incentive compensation plans to employees meeting the participation requirements of the respective plans. Performance compensation is determined in accordance with plan formulas. For the years ended December 31, 2003 and 2002, compensation expense related to the Companies' performance incentive plans was $376,449 and $128,391, respectively.

(13) Dividend Restrictions

The Companies' domestic insurance subsidiaries are subject to various regulatory restrictions that limit the maximum amount of dividends that can be paid without the prior approval of insurance regulatory authorities. The maximum amount of dividends to be paid is generally based on surplus and net income. Additionally, as a result of a Keep Well Agreement dated November 28, 2001 between LMHC MA, LMGI, LMIC, Liberty Fire, and the Massachusetts Commissioner of Insurance, the maximum dividend payout is also based on the authorized control level risk-based capital of certain insurance subsidiaries. The maximum dividend payout in 2003 that may be made prior to regulatory approval is $691,715.

(14) Commitments and Contingent Liabilities

At December 31, 2003, the Companies had $697,439 in assigned structured settlement annuities in connection with the Prudential transaction. The asset and annuity liability of the same amount are correspondingly classified as other assets and other liabilities in the consolidated balance sheet.

The Companies accrued a liability for guaranty funds and other assessments of $270,173 and $269,258 as of December 31, 2003 and 2002, respectively. A receivable for future premium tax credits related to these assessments of $45,984 and $31,309 were recorded at December 31, 2003 and 2002, respectively. This represents management's best estimate of the liability. Current assessments are expected to be paid out in the next five years, while premium tax offsets are expected to be realized in the next eleven years, beginning in 2004.

(dollars in thousands)

At December 31, 2003, the Companies had commitments to purchase various mortgage-backed securities settling in 2004, at a cost of $457,875 with a fair market value of $464,229 and are included as fixed maturities in the combined statutory basis balance sheets. Additionally, at December 31, 2003, the Companies had unfunded capital commitments to private equity investments of $557,446.

The Companies lease certain office facilities and equipment under operating leases expiring in various years through 2101. Rental expense amounted to $135,490 and $115,582 for the years ended December 31, 2003 and 2002, respectively. It is expected that as leases expire they will be replaced. Future minimum rental payments under non-cancelable leases with terms in excess of one year are estimated to be:

Year	**Operating Arrangements**
2004	$ 115,490
2005	95,258
2006	72,400
2007	50,053
2008	29,638
2009 and thereafter	163,901
Total	$ 526,740

The Companies have entered into sale-leaseback arrangements with unrelated parties on certain property, plant and equipment ("PP&E"). Equipment agreements are under thirteen-month lease periods with monthly renewal options to a maximum of sixty months. The Companies have a purchase option for all PP&E at the end of each respective lease. The Companies sold non-admitted assets with book values of $19,770 and $7,445 in 2003 and 2002, respectively. The Companies received cash in the amounts of $21,934 and $7,980 in 2003 and 2002, respectively. The transactions resulted in deferred gains of $2,164 and $535. The following is a schedule of the Companies' minimum lease obligations:

Year	**Sale Lease-back**
2004	$ 49,428
2005	36,615
2006	35,730
2007	16,903
2008	14,718
2009 and thereafter	21,329
Total	$ 174,723

The Companies guarantee $88,000 of medium term notes payable issued by LMCC. The Companies guarantee the performance of LMCC under a $600,000 commercial paper program. The amount outstanding as of December 31, 2003 was $84,000. The Companies guarantee the performance of the obligations of LMCC under a $450,000 revolving credit agreement, with several lenders led by

Fleet National Bank. The revolving line of credit serves as a back-up facility for the commercial paper program. At December 31, 2003 the Companies did not utilize their revolving line of credit.

The Companies guarantee the performance of Inversora Segucar, C.A. under a $25,000 liquidity facility program. The amount outstanding as of December 31, 2003 was $10,503.

The Companies collateralize the performance of Liberty Corporate Capital Limited's obligations under a $671,817 standby letter of credit. As of December 31, 2003, there have been no drawings under the standby letter of credit.

The Companies guarantee obligations of Liberty Life and Liberty Mutual Insurance Company (U.K.) Ltd. on policies and contracts issued.

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.

LMGI has been in various insurance coverage disputes with Armstrong World Industries ("Armstrong") for over twenty years relating to asbestos liabilities and insurance covering the period 1973 to 1981. LMGI has recently prevailed in a favorable arbitration ruling before an appellate panel regarding Armstrong's insurance coverage. Armstrong filed a Chapter 11 Bankruptcy petition in the United States Bankruptcy Court for the District of Delaware in December 2000 and is still operating under the protection of Chapter 11. A declaratory judgment action, filed by Armstrong in 2002, is pending in the United States District Court for the Eastern District of Pennsylvania seeking coverage for asbestos claims under insurance policies issued to Armstrong during the period of 1973 to 1981, including, but not limited to, damages and a declaration regarding the availability, applicability and scope of alleged non-product coverage not subject to the aggregate limits of the policies. Armstrong contends that a significant portion of its asbestos liability arises from operations that would entitle Armstrong to insurance coverage under the disputed policies without regard to the aggregate limit of liability. The Pennsylvania action is currently in the initial pleading stages and inactive by agreement of the parties. Armstrong has also recently filed, in the same Pennsylvania District Court, a Motion to Vacate the appellate arbitration award that was favorable to LMGI. LMGI intends to vigorously defend its position. Management believes that the ultimate liability, if any, to Armstrong will not be resolved for at least one year and very likely may not be known for several years. In the opinion of management, the outcome of these pending matters is difficult to predict and in the event of an adverse outcome, could have a material adverse effect on LMGI's results of operations, financial condition and liquidity.

LMGI is involved in litigation arising from the terrorist attack on September 11, 2001. Multiple litigated matters are pending in various jurisdictions, including the so-called "Silverstein Property Damage Coverage" litigation which recently concluded the first phase of a multi phase trial in the U.S. District Court for the Southern District of New York. This first phase was intended to determine which policy language applies to the Silverstein property insurance program. A determination of the applicable language was necessary because Silverstein maintains that the terrorist attack constitutes two occurrences under certain policy forms, essentially seeking to double approximately $3,200,000 in coverage allegedly purchased from numerous insurers. The jury ruled that the insurers, including LMGI, bound coverage under a policy form which defined this loss as one occurrence. LMGI is also involved in a property coverage dispute related to Tower 7 at the World Trade Center. LMGI participates in the excess layer as a reinsurer of Industrial Risk Insurers, one of the participating insurers and a party to this lawsuit. In addition, a liability insurance coverage dispute is pending between Silverstein and various insurance companies, including LMGI as an upper layer excess carrier on liability programs for the World Trade Center Properties LLC and Westfield America, Inc., both of whom were leaseholders in the World Trade Center. In addition to these proceedings, a separate coverage lawsuit arises from 42 underlying actions brought as a result of the September 11, 2001 terrorist attack alleging negligent airport security in Boston and Maine. LMGI is a plaintiff in this action. These matters are in various stages of litigation and LMGI is comfortable with the reserves that are held.

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Report of Independent Auditors on
Other Financial Information

The Boards of Directors
Liberty Mutual Holding Company Inc.

Our audits were conducted for the purpose of forming an opinion on the combined statutory basis financial statements of Liberty Mutual Insurance Company Pool taken as a whole. The accompanying supplemental investment disclosures are presented to comply with the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual and are not a required part of the combined statutory basis financial statements. Additional disclosures of the combining statutory basis balance sheets of the Liberty Mutual Insurance Company Pool as of December 31, 2003 and combining statutory basis statements of income and changes in statutory surplus for the year then ended are presented for purpose of additional analysis and are not a required part of the combined statutory basis financial statements. Such information has been subjected to auditing procedures applied in our audit of the combined statutory basis financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined statutory basis financial statements taken as a whole.

This report is intended solely for the information and use of the Liberty Mutual Insurance Company Pool and state insurance departments to whose jurisdiction the Liberty Mutual Insurance Company Pool are subject and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

February 27, 2004

LIBERTY MUTUAL INSURANCE COMPANY POOL

Supplemental Schedule of Selected Financial Data

December 31, 2003

(dollars in thousands)

Investment Risks Interrogatories

1. The Liberty Mutual Insurance Company Pool ("the Companies") total admitted assets as reported on page two of the Companies' Annual Statements for the year ended December 31, 2003 is $31,382,885.

2. Following are the 10 largest exposures to a single issuer/borrower/investment, by investment category excluding (i) U.S. government, U.S. government agency securities and those U.S. government money market funds listed in the Appendix to the *SVO Purposes and Procedures Manual* as exempt, (ii) property occupied by the Companies and (iii) policy loans.

Investment Category	Amount	Percentage of Total Admitted Assets
a. Citigroup	$202,017	0.644%
b. Verizon	$175,658	0.560%
c. Royal Bank of Scotland	$153,625	0.490%
d. Il Stat TXB-Pension	$117,617	0.375%
e. Morgan Stanley	$108,857	0.347%
f. General Electric	$101,380	0.323%
g. Procter and Gamble Co.	$103,840	0.331%
h. Norfolk Southern Corp	$93,876	0.299%
i. American General Finance	$90,646	0.289%
j. Safeway	$87,022	0.277%

3. The Companies' total admitted assets held in bonds, preferred stocks and short-term investments by NAIC rating at December 31, 2003, are:

Bonds	Amount	Percentage of Total Admitted Assets	Preferred Stocks	Amount	Percentage of Total Admitted Assets
NAIC-1	$16,919,738	53.914%	P/RP-1	$19,060	0.061%
NAIC-2	$1,526,418	4.864%	P/RP-2	$6,789	0.022%
NAIC-3	$607,212	1.935%	P/RP-3	$70,280	0.224%
NAIC-4	$567,197	1.807%	P/RP-4	$2,459	0.008%
NAIC-5	$59,173	0.189%	P/RP-5	$17,612	0.056%
NAIC-6	$9,756	0.031%	P/RP-6	$10	0.056%
	$19,689,494			$116,210	

4. Following are the Companies' total admitted assets held in foreign investments (regardless of whether there is any foreign currency exposure) and unhedged foreign currency exposure (defined as the statement value of investments denominated in foreign currencies which are not hedged by financial instruments qualifying for hedge accounting as specified in SSAP No. 86—*Derivative Instruments*), including (i) foreign-currency-denominated investments of $412,682 supporting insurance liabilities denominated in that same foreign currency of $212,917 and excluding (ii) Canadian investments and currency exposure of $1,126,194 as of December 31, 2003.

   Assets held in foreign investments less than 2.5% of total admitted assets, detail not required.
   Yes [X] No [ ]

LIBERTY MUTUAL INSURANCE COMPANY POOL

Supplemental Schedule of Selected Financial Data

December 31, 2003

(dollars in thousands)

5. Aggregate foreign investment exposure, excluding Canadian investments and currency exposure of $1,126,194 categorized by NAIC sovereign rating:

	Amount	Percentage of Total Admitted Assets
i. Countries rated NAIC-1	$ -	0.000%
ii. Countries rated NAIC-2	$ -	0.000%
iii. Countries rated NAIC-3 or below	$ -	0.000%
	$ -	

6. Two largest foreign investment exposures to a single country, categorized by the country's NAIC sovereign rating:

	Amount	Percentage of Total Admitted Assets
i. Countries rated NAIC-1:		
Country:	$ -	0.000%
Country:	$ -	0.000%
ii. Countries rated NAIC-2		
Country:	$ -	0.000%
Country:	$ -	0.000%
iii. Countries rated NAIC-3 or below		
Country:	$ -	0.000%
Country:	$ -	0.000%

7. Aggregate unhedged foreign currency exposure	$ -	0.000%

8. Aggregate unhedged foreign currency exposures, categorized by the country's NAIC sovereign rating:

	Amount	Percentage of Total Admitted Assets
i. Countries rated NAIC-1	$ -	0.000%
ii. Countries rated NAIC-2	$ -	0.000%
iii. Countries rated NAIC-3 or below	$ -	0.000%

9. Two largest unhedged foreign currency exposures to a single country, categorized by the country's NAIC sovereign rating:

	Amount	Percentage of Total Admitted Assets
i. Countries rated NAIC-1:		
Country:	$ -	0.000%
Country:	$ -	0.000%
ii. Countries rated NAIC-2:		
Country:	$ -	0.000%
Country:	$ -	0.000%
iii. Countries rated NAIC-3 or below		
Country:	$ -	0.000%
Country:	$ -	0.000%

10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:

LIBERTY MUTUAL INSURANCE COMPANY POOL

Supplemental Schedule of Selected Financial Data

December 31, 2003

(dollars in thousands)

	Amount	Percentage of Total Admitted Assets
i. NAIC rating 1-	$ -	0.000%
ii. NAIC rating 1-	$ -	0.000%
iii. NAIC rating 1-	$ -	0.000%
iv. NAIC rating 1-	$ -	0.000%
v. NAIC rating 1-	$ -	0.000%
vi. NAIC rating 1-	$ -	0.000%
vii. NAIC rating 1-	$ -	0.000%
viii. NAIC rating 1-	$ -	0.000%
xi. NAIC rating 1-	$ -	0.000%
x. NAIC rating 1-	$ -	0.000%

11. The Companies' total admitted assets held in Canadian investments and unhedged Canadian currency exposure, including Canadian-currency-denominated investments of $1,126,194 supporting Canadian-denominated insurance liabilities of $144,424 at December 31, 2003.

    Assets held in Canadian investments less than 2.5% of total admitted assets, detail not required.
    Yes [ ] No [X]

12. Aggregate Canadian investment exposure:

	Amount	Percentage of Total Admitted Assets
a. Canadian investments	$1,126,194	3.589%
b. Unhedged Canadian currency exposure	$1,088,580	3.469%

13. The Companies did not hold any investments with contractual sales restrictions (defined as investments having restrictions that prevent investments from being sold within 90 days).

LIBERTY MUTUAL INSURANCE COMPANY POOL

Supplemental Schedule of Selected Financial Data

December 31, 2003

(dollars in thousands)

14. The Companies admitted assets held in the largest 10 equity interests (including investments in the shares of mutual funds, preferred stocks, publicly traded equity securities, and other equity securities, and excluding money market and bond mutual funds listed in the Appendix to the SVO Practices and Procedures Manual as exempt or Class 1) at December 31, 2003, are:

Investment Category	Amount	Percentage of Total Admitted Assets
a. Liberty All-Star Equity Fund	$34,685	0.111%
b. General Electric Co.	$24,263	0.077%
c. Microsoft Corp.	$23,093	0.074%
d. Pfizer, Inc.	$20,615	0.066%
d. Exxon Mobil Corp.	$20,318	0.065%
e. Citigroup, Inc	$18,228	0.058%
f.. Wal-Mart Stores, Inc.	$17,729	0.056%
g. Intel Corp.	$15,858	0.051%
h. AT&T Corp.	$15,186	0.048%
i. SBC Communications Inc.	$13,953	0.044%

15. The Companies did not hold any investment in nonaffiliated, privately placed equities (included in other equity securities) and excluding securities eligible for sale under (i) Securities and Exchange Commission (SEC) Rule 144a or (ii) SEC Rule 144 without volume restrictions at December 31, 2003.

16. The Companies' total admitted assets held in general partnership interests (included in other equity securities) at December 31, 2003, are less than 2.5% of the Companies' total admitted assets.

17. The Companies did not hold any investment in mortgage loans.

18. The Companies did not hold any loan-to-value ratios.

19. Real Estate holdings are less than 2.5% of the Companies' total admitted assets.

20. The Companies' total admitted assets are subject to the following types of agreements as of:

	December 31, 2003		March 31, 2003	June 30, 2003	September 30, 2003
	Amount	Percentage of Total Admitted Assets	Amount	Amount	Amount
a. Securities lending (do not include assets held as collateral for such transactions)	$171,548	0.548%	$247,760	$335,945	$213,544
b. Repurchase agreements	$ -	0.000%	$ -	$ -	$ -
c. Reverse repurchase agreements	$ -	0.000%	$ -	$ -	$ -
d. Dollar repurchase agreements	$ -	0.000%	$ -	$ -	$ -
e. Dollar reverse repurchase agreements	$ -	0.000%	$ -	$ -	$ -

21. The Companies did not hold any warrants not attached to other financial instruments, options, caps, and floors at December 31, 2003.

22. The Companies did not hold any potential exposure for collars, swaps, and forwards.

23. The Companies did not have potential exposure for futures contracts.

24. The Companies did not hold any investments included in the write-ins for invested assets category.

LIBERTY MUTUAL INSURANCE COMPANY POOL

Supplemental Schedule of Selected Financial Data

December 31, 2003

(dollars in thousands)

Summary Investment Schedule

Investment Categories	Gross Investment Holdings*	Percentage of total Invested Assets	Admitted Assets as Reported in the Annual Statement	Percentage of total Admitted Assets
Bonds:				
US Treasury Securities	$1,854,666	7.370%	$1,854,666	7.370%
US government agency and corporate obligations (excluding mortgage-backed securities)				
Issued by US Government Agencies	1,041,230	4.138%	1,041,230	4.138%
Issued by US Government-sponsored agencies	516,037	2.051%	516,037	2.051%
Foreign Government (including Canada, excluding mortgage- backed securities)	517,055	2.055%	517,055	2.055%
State, territory and possessions - general obligations	322,367	1.281%	322,367	1.281%
Political subdivisions of states, territories and possessions – general obligations	126,745	0.504%	126,745	0.504%
Revenue and assessment obligations	1,209,258	4.805%	1,209,258	4.805%
Industrial development and similar obligations	-	0.000%	-	0.000%
Mortgage-backed securities (includes residential and commercial MBS):				
Pass-through securities:				
Guaranteed by GNMA	859,900	3.417%	859,900	3.417%
Issued by FNMA and FHLMC	2,759,734	10.966%	2,759,734	10.966%
Privately issued	759	0.003%	759	0.003%
CMOs and REMICs				
Issued by FNMA and FHLMC	2,246,654	8.927%	2,246,654	8.927%
Privately issued and collateralized by MBS issued or guaranteed by GNMA, FNMA, or FHLMC	77,911	0.310%	77,911	0.310%
All other privately issued	730,972	2.905%	730,972	2.905%
Other debt and other fixed income securities (excluding short-term):				
Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	5,837,037	23.194%	5,837,037	23.194%
Unaffiliated foreign securities	854,253	3.395%	854,253	3.395%
Affiliated securities	-	0.000%	-	0.000%
Investment in mutual funds	132,351	0.526%	132,351	0.526%
Equity interests				
Preferred stocks:				
Affiliated	-	0.000%	-	0.000%
Unaffiliated	116,210	0.462%	116,210	0.462%
Publicly traded equity securities (excluding preferred stocks)				
Affiliated	-	0.000%	-	0.000%
Unaffiliated	985,673	3.917%	985,673	3.917%
Other equity securities:				
Affiliated	2,893,627	11.498%	2,893,627	11.498%
Unaffiliated	199,757	0.794%	199,757	0.794%
Real Estate Investments:				
Property occupied by Companies	239,793	0.953%	239,793	0.953%
Property held for production of income	3,163	0.013%	3,163	0.013%
Property held for sale	7,363	0.029%	7,363	0.029%
Receivables for securities	30,331	0.121%	30,331	0.121%
Cash and short term investments	973,788	3.870%	973,788	3.870%
Other Invested Assets	628,997	2.500%	628,997	2.500%
Total Cash and Invested Assets	$25,165,631	100.000%	$25,165,631	100.000%

LIBERTY MUTUAL INSURANCE COMPANY POOL

Supplemental Schedule of Selected Financial Data

December 31, 2003

(dollars in thousands)

* Gross investment holdings as valued in compliance with NAIC Accounting Practices & Procedures Manual.

LIBERTY MUTUAL INSURANCE COMPANY POOL

Note to the Supplemental Schedule of Selected Financial Data

December 31, 2003

Basis of Presentation

The accompanying supplemental schedule of selected financial data presents selected investment statutory financial data as of December 31, 2003, and for the year then ended for purposes of complying with the National Association of Insurance Commissioners' (NAIC) Accounting Practices and Procedures Manual and agrees to or is included in the amounts reported in the Liberty Mutual Insurance Company Pool members' 2003 Statutory Annual Statements as filed with the applicable domiciliary state insurance departments.

LIBERTY MUTUAL INSURANCE COMPANY POOL
Combining Statutory Basis Balance Sheet
As of December 31, 2003
(dollars in thousands)

	LIBERTY MUTUAL INSURANCE COMPANY	LIBERTY MUTUAL FIRE INSURANCE COMPANY	LIBERTY INSURANCE CORPORATION	(A) LIBERTY INSURANCE CORPORATION ELIMINATIONS	LIBERTY MUTUAL INSURANCE CORPORATION	THE FIRST LIBERTY INSURANCE CORPORATION	LIBERTY INSURANCE COMPANY OF AMERICA	LIBERTY SURPLUS INSURANCE CORPORATION	(A) LIBERTY (EX LIC) ELIMINATIONS	LIBERTY PERSONAL INSURANCE COMPANY
Admitted Assets										
Investments:										
Fixed maturities	$ 10,155,163	$ 1,700,534	$ 1,027,773	$ -	$ 42,939	$ 26,536	$ 15,548	$ 46,534	$ (29,246)	$ 44,770
Common and preferred stocks	1,136,520	182,045	59,244	-	607	1,115	-	-	(6,737)	-
Investments in affiliates	4,679,857	15,928	-	(257,788)	-	-	-	-	(85,650)	-
Cash and short-term investments	423,218	29,954	45,575	-	452	1,869	2,449	551	-	442
Companies occupied properties	215,433	-	-	-	-	-	-	-	-	-
Other investments	491,832	75,809	25,085	-	-	-	-	-	-	12
Cash and invested assets	17,102,023	2,004,270	1,157,677	(257,788)	43,998	29,520	17,997	47,085	(121,633)	45,224
Premiums receivable, net	2,150,433	322,220	193,332	-	6,444	3,222	-	-	-	40
Deferred tax asset, net	432,875	71,645	23,097	-	1,508	740	-	-	-	-
Reinsurance recoverable on paid losses, net	324,809	-	-	-	-	-	-	2,410	-	-
Receivable from affiliates	938,737	91,871	69,743	-	2,648	4,134	-	-	-	-
Funds held by affiliates and other reinsurers	681,443	-	-	-	-	-	-	-	-	-
Other admitted assets	514,832	70,597	42,285	-	1,587	969	213	546	-	648
Total admitted assets	$ 22,145,152	$ 2,560,603	$ 1,486,134	$ (257,788)	$ 56,185	$ 38,585	$ 18,210	$ 50,041	$ (121,633)	$ 45,912
Liabilities and Surplus										
Liabilities:										
Unpaid claims	$ 8,334,385	$ 1,318,732	$ 791,239	$ -	$ 26,375	$ 13,187	$ -	$ -	$ -	$ -
Unpaid claim adjustment expenses	1,648,045	260,767	156,460	-	5,215	2,608	-	-	-	-
Unearned premiums	2,423,885	383,526	230,116	-	7,671	3,835	-	-	-	-
Other liabilities and deposits	501,180	7,198	22,883	(15,602)	(814)	(390)	159	7,015	-	384
Funds held under reinsurance contracts	2,293,415	-	-	-	-	-	-	-	-	-
Ceded reinsurance premiums payable	534,724	-	-	-	-	-	-	11,201	-	-
Taxes, licenses and fees accrued	227,063	35,809	21,497	-	717	358	-	-	-	-
Federal income taxes accrued	57,144	2,990	5,942	-	160	-	20	45	-	38
Policyholder dividends accrued	2,217	351	208	-	6	4	-	-	-	-
Total liabilities	16,022,058	2,009,373	1,228,345	(15,602)	39,330	19,602	179	18,261	-	422
Surplus:										
Surplus notes	1,141,346	-	-	-	-	-	-	-	-	-
Special and other surplus funds	703,978	112,810	66,936	-	2,231	1,116	-	-	-	-
Contributed capital	1,440,235	10,000	159,663	(159,663)	11,000	11,000	10,500	26,000	(58,500)	40,560
Unassigned surplus	2,837,535	428,420	31,190	(82,523)	3,624	6,867	7,531	5,780	(63,133)	4,930
Total surplus	6,123,094	551,230	257,789	(242,186)	16,855	18,983	18,031	31,780	(121,633)	45,490
Total liabilities and surplus	$ 22,145,152	$ 2,560,603	$ 1,486,134	$ (257,788)	$ 56,185	$ 38,585	$ 18,210	$ 50,041	$ (121,633)	$ 45,912

See accompanying notes to combined basis statutory financial statements.

(A) Eliminations represent intercompany transactions and balances for each respective account.

LIBERTY MUTUAL INSURANCE COMPANY POOL
Combining Statutory Basis Balance Sheet
As of December 31, 2003
(dollars in thousands)

	(A) LIBERTY PERSONAL INSURANCE COMPANY ELIMINATIONS	LIBERTY COUNTY MUTUAL INSURANCE COMPANY	(A) LIBERTY COUNTY ELIMINATIONS	GOLDEN EAGLE INSURANCE CORPORATION	(A) GOLDEN EAGLE INSURANCE CORPORATION ELIMINATIONS	MONTGOMERY MUTUAL INSURANCE COMPANY	(A) MONTGOMERY POOLED CONSOLIDATION	MERCHANTS AND BUSINESS MENS MUTUAL INSURANCE COMPANY	(A) MERCHANTS AND BUSINESS MENS MUTUAL INSURANCE COMPANY ELIMINATIONS	EMPLOYERS INSURANCE OF WAUSAU
Admitted Assets										
Investments:										
Fixed maturities	$ -	$ 7,995	$ -	$ 501,578	$ -	$ 129,322	$ -	$ 23,253	$ -	$ 2,846,425
Common and preferred stocks	-	-	-	33,709	-	24,943	-	-	-	2,094
Investments in affiliates	(54,009)	-	(10,000)	50,858	(234,962)	-	(18,000)	-	(2,748)	5,293
Cash and short-term investments	-	4,973	-	44,414	-	6,975	-	9,844	1,295	29,477
Companies occupied properties	-	-	-	-	-	4,932	-	-	-	29,954
Other investments	-	-	-	2,979	-	6	-	100	-	70,743
Cash and invested assets	(54,009)	12,968	(10,000)	633,538	(234,962)	166,178	(18,000)	33,197	(1,453)	2,983,986
Premiums receivable, net	-	-	-	80,555	-	25,778	-	-	-	549,789
Deferred tax asset, net	-	98	-	19,508	-	4,314	-	106	-	69,174
Reinsurance recoverable on paid losses, net	-	115	-	6,067	-	1,072	-	107	-	59,134
Receivable from affiliates	-	-	-	11,271	-	2,931	-	-	-	171,052
Funds held by affiliates and other reinsurers	-	-	-	-	-	-	-	-	-	-
Other admitted assets	8,519	71	-	19,738	-	6,283	-	398	-	149,347
Total admitted assets	$ (45,490)	$ 13,252	$ (10,000)	$ 770,677	$ (234,962)	$ 206,556	$ (18,000)	$ 33,808	$ (1,453)	$ 3,982,482
Liabilities and Surplus										
Liabilities:										
Unpaid claims	$ -	$ -	$ -	$ 329,683	$ -	$ 105,499	$ -	$ -	$ -	$ 2,109,971
Unpaid claim adjustment expenses	-	-	-	65,192	-	20,861	-	-	-	417,227
Unearned premiums	-	-	-	95,882	-	30,682	-	-	-	613,642
Other liabilities and deposits	-	2,623	-	33,901	-	2,851	-	21,638	1,295	(19,339)
Funds held under reinsurance contracts	-	-	-	-	-	-	-	-	-	19,106
Ceded reinsurance premiums payable	-	265	-	312	-	4,511	-	732	-	19,163
Taxes, licenses and fees accrued	-	-	-	8,957	-	2,866	-	-	-	57,324
Federal income taxes accrued	-	6	-	1,678	-	-	-	-	-	14,007
Policyholder dividends accrued	-	-	-	88	-	28	-	-	-	560
Total liabilities	-	2,894	-	535,693	-	167,298	-	22,370	1,295	3,231,661
Surplus:										
Surplus notes	-	10,000	(10,000)	-	-	18,000	(18,000)	9,500	(9,500)	220,000
Special and other surplus funds	-	-	-	27,890	(170)	8,925	-	-	-	178,495
Contributed capital	(40,560)	-	-	224,233	(224,233)	-	-	-	-	5,000
Unassigned surplus	(4,930)	358	-	(17,139)	(10,559)	12,333	-	1,938	6,752	347,326
Total surplus	(45,490)	10,358	(10,000)	234,984	(234,962)	39,258	(18,000)	11,438	(2,748)	750,821
Total liabilities and surplus	$ (45,490)	$ 13,252	$ (10,000)	$ 770,677	$ (234,962)	$ 206,556	$ (18,000)	$ 33,808	$ (1,453)	$ 3,982,482

See accompanying notes to combined basis statutory financial statements.

(A) Eliminations represent intercompany transactions and balances for each respective account.

LIBERTY MUTUAL INSURANCE COMPANY POOL
Combining Statutory Basis Balance Sheet
As of December 31, 2003
(dollars in thousands)

	(A) EMPLOYERS INSURANCE OF WAUSAU ELIMINATIONS	WAUSAU GENERAL INSURANCE COMPANY	WAUSAU UNDERWRITERS INSURANCE COMPANY	WAUSAU BUSINESS INSURANCE COMPANY	(A) WAUSAU STOCK ELIMINATIONS	COLORADO CASUALTY INSURANCE COMPANY	(A) COLORADO CASUALTY INSURANCE COMPANY ELIMINATIONS	BRIDGEFIELD EMPLOYERS INSURANCE COMPANY	(A) BRIDGEFIELD EMPLOYERS INSURANCE COMPANY ELIMINATIONS	BRIDGEFIELD CASUALTY INSURANCE COMPANY	(A) BRIDGEFIELD CASUALTY INSURANCE COMPANY ELIMINATIONS
Admitted Assets											
Investments:											
Fixed maturities	$ -	$ 101,241	$ 152,801	$ 99,860	$ -	$ 13,916	$ -	$ 136,211	$ -	$ 38,978	$ -
Common and preferred stocks	-	-	139	3	-	-	-	-	-	51	-
Investments in affiliates	(220,000)	-	-	-	(182,634)	-	(30,682)	19,054	(75,578)	-	(18,513)
Cash and short-term investments	-	6,436	12,868	4,802	-	(790)	232	(5,032)	11,390	1,211	3,133
Companies occupied properties	-	-	-	-	-	-	-	-	-	-	-
Other investments	-	1,325	1,160	300	-	-	-	20	-	250	-
Cash and invested assets	(220,000)	109,002	166,968	104,965	(182,634)	13,126	(30,450)	150,253	(64,188)	40,490	(15,380)
Premiums receivable, net	-	12,889	12,889	12,889	-	21,840	-	32,921	-	(3,484)	-
Deferred tax asset, net	-	3,025	2,212	3,170	-	173	-	1,376	-	368	-
Reinsurance recoverable on paid losses, net	-	-	-	-	-	138	-	1,694	-	(15)	-
Receivable from affiliates	-	4,982	8,191	-	-	-	-	-	-	121	-
Funds held by affiliates and other reinsurers	-	-	-	-	-	-	-	-	-	-	-
Other admitted assets	(5,801)	3,250	4,265	3,318	-	823	18,762	1,372	-	580	-
Total admitted assets	$ (225,801)	$ 133,148	$ 194,525	$ 124,342	$ (182,634)	$ 36,100	$ (11,688)	$ 187,616	$ (64,188)	$ 38,060	$ (15,380)
Liabilities and Surplus											
Liabilities:											
Unpaid claims	$ -	$ 52,749	$ 52,749	$ 52,749	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Unpaid claim adjustment expenses	-	10,431	10,431	10,431	-	-	-	-	-	-	-
Unearned premiums	-	15,341	15,341	15,341	-	-	-	-	-	-	-
Other liabilities and deposits	-	4,032	21,085	3,883	-	23,450	232	77,275	11,390	8,413	3,133
Funds held under reinsurance contracts	-	-	-	-	-	-	-	-	-	-	-
Ceded reinsurance premiums payable	-	-	-	-	-	30	-	5,342	-	6	-
Taxes, licenses and fees accrued	-	1,434	1,434	1,434	-	700	-	29,214	-	11,049	-
Federal income taxes accrued	-	298	-	215	-	-	-	209	-	79	-
Policyholder dividends accrued	-	14	14	14	-	-	-	-	-	-	-
Total liabilities	-	84,299	101,054	84,067	-	24,180	232	112,040	11,390	19,547	3,133
Surplus:											
Surplus notes	(220,000)	-	-	-	-	-	-	-	-	-	-
Special and other surplus funds	-	4,482	4,462	4,462	-	-	-	-	-	-	-
Contributed capital	-	39,000	81,860	53,800	(174,660)	14,329	(14,329)	43,324	(43,324)	15,500	(15,500)
Unassigned surplus	(5,801)	5,387	7,149	(17,987)	(7,974)	(2,409)	2,409	32,252	(32,254)	3,013	(3,013)
Total surplus	(225,801)	46,849	93,471	40,275	(182,634)	11,920	(11,920)	75,576	(75,578)	18,513	(18,513)
Total liabilities and surplus	$ (225,801)	$ 133,148	$ 194,525	$ 124,342	$ (182,634)	$ 36,100	$ (11,688)	$ 187,616	$ (64,188)	$ 38,060	$ (15,380)

See accompanying notes to combined basis statutory financial statements

(A) Eliminations represent intercompany transactions and balances for each respective account.

LIBERTY MUTUAL INSURANCE COMPANY POOL
Combining Statutory Basis Balance Sheet
As of December 31, 2003
(dollars in thousands)

	PRUDENTIAL PROPERY & CASUALTY INSURANCE COMPANY	(A) PRUDENTIAL PROPERY & CASUALTY INSURANCE COMPANY ELIMINATIONS	PRUDENTIAL COMMERCIAL INSURANCE COMPANY	(A) PRUDENTIAL COMMERCIAL INSURANCE COMPANY ELIMINATIONS	PRUDENTIAL GENERAL INSURANCE COMPANY	(A) PRUDENTIAL GENERAL INSURANCE COMPANY ELIMINATIONS	LIBERTY LLOYDS OF TEXAS INSURANCE COMPANY	(A) LIBERTY LLOYDS OF TEXAS INSURANCE COMPANY ELIMINATIONS	LIBERTY INSURANCE UNDERWRITERS INC.	(A) LIH INSURANCE ELIMINATIONS (LIU)	(A) LIMITED PARTNERSHIP ELIMINATIONS
Admitted Assets											
Investments:											
Fixed maturities	$ 1,758,938	$ -	$ 13,598	$ -	$ 13,398	$ -	$ 4,417	$ -	$ 61,151	$ -	$ -
Common and preferred stocks	257	-	-	-	-	-	-	-	-		
Investments in affiliates	3,538	(623,964)	-	(97)	-	(88)	-	(5,427)	-	(60,759)	
Cash and short-term investments	302,652	-	1,906	-	4,144	-	874	-	28,474	(1)	
Companies occupied properties	-	-	-	-	-	-	-	-	-		
Other investments	2,736	-	-	-	-	-	-	-	1,269		6,646
Cash and invested assets	2,068,121	(623,964)	15,504	(97)	17,542	(88)	5,291	(5,427)	90,894	(60,760)	6,646
Premiums receivable, net	-	-	7,002	-	17,821	-	-	-	-		
Deferred tax asset, net	1,690	-	19	-	139	-	-	-	7		
Reinsurance recoverable on paid losses, net	7,494	-	-	-	-	-	-	-	-		
Receivable from affiliates	3,866	-	1,344	-	3,954	-	67	-	-		
Funds held by affiliates and other reinsurers	111	-	-	-	-	-	-	-	-		
Other admitted assets	114,343	-	242	-	358	-	72	-	614		
Total admitted assets	$ 2,195,625	$ (623,964)	$ 24,111	$ (97)	$ 39,814	$ (88)	$ 5,430	$ (5,427)	$ 91,515	$ (60,760)	$ 6,646
Liabilities and Surplus											
Liabilities:											
Unpaid claims	$ 196,800	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Unpaid claim adjustment expenses	7,700	-	-	-	-	-	-	-	-		
Unearned premiums	-	-	-	-	-	-	-	-	-		
Other liabilities and deposits	1,378,218	-	2,170	-	5,525	-	-	-	16,438		
Funds held under reinsurance contracts	906	-	-	-	-	-	-	-	-		
Ceded reinsurance premiums payable	16,775	-	7,057	-	18,231	-	-	-	13,697		
Taxes, licenses and fees accrued	-	-	167	-	1,761	-	-	-	-		
Federal income taxes accrued	-	-	46	-	45	-	3	-	620		
Policyholder dividends accrued	-	-	-	-	-	-	-	-	-		
Total liabilities	1,600,399	-	9,440	-	25,562	-	3	-	30,755	-	-
Surplus:											
Surplus notes	-	-	-	-	-	-	-	-	-	-	
Special and other surplus funds	-	-	-	-	-	-	-	-	-	-	
Contributed capital	595,226	(589,000)	7,000	-	8,000	-	3,000	(3,000)	63,530	(63,528)	
Unassigned surplus	-	(34,964)	7,671	(97)	6,252	(88)	2,427	(2,427)	(2,770)	2,768	6,646
Total surplus	595,226	(623,964)	14,671	(97)	14,252	(88)	5,427	(5,427)	60,760	(60,760)	6,646
Total liabilities and surplus	$ 2,195,625	$ (623,964)	$ 24,111	$ (97)	$ 39,814	$ (88)	$ 5,430	$ (5,427)	$ 91,515	$ (60,760)	$ 6,646

See accompanying notes to combined basis statutory financial statements.

(A) Eliminations represent intercompany transactions and balances for each respective account.

LIBERTY MUTUAL INSURANCE COMPANY POOL
Consolidating Statutory Statements of Income
Years ended December 31, 2003
(dollars in thousands)

	LIBERTY MUTUAL INSURANCE COMPANY	LIBERTY MUTUAL FIRE INSURANCE COMPANY	LIBERTY INSURANCE CORPORATION	LIBERTY MUTUAL INSURANCE CORPORATION	THE FIRST LIBERTY INSURANCE CORPORATION	LIBERTY INSURANCE COMPANY OF AMERICA	LIBERTY SURPLUS INSURANCE CORPORATION	LIBERTY PERSONAL INSURANCE COMPANY	LIBERTY COUNTY MUTUAL INSURANCE COMPANY	GOLDEN EAGLE INSURANCE CORPORATION
Premiums earned	$ 5,535,599	$ 875,886	$ 525,532	$ 17,518	$ 8,759	$ -	$ -	$ -	$ -	$ 218,971
Claims	3,676,914	581,790	349,074	11,636	5,818	-	-	-	-	145,448
Claim adjustment expenses	1,058,548	167,492	100,495	3,350	1,675	-	-	-	-	41,873
Underwriting and other expenses	1,091,220	172,638	103,583	3,452	1,726	-	-	-	-	43,159
Premium and other taxes and assessments	261,660	41,402	24,841	828	414	-	-	-	-	10,350
Total underwriting expenses	6,088,342	963,322	577,993	19,266	9,633	-	-	-	-	240,830
Underwriting loss before dividends	(552,743)	(87,436)	(52,461)	(1,748)	(874)	-	-	-	-	(21,859)
Policyholder dividends	(1,518)	(240)	(144)	(5)	(2)	-	-	-	-	(60)
Underwriting loss	(551,225)	(87,196)	(52,317)	(1,743)	(872)	-	-	-	-	(21,799)
Net investment income	734,895	130,847	60,294	2,598	1,946	820	1,903	2,540	105	34,040
Realized investment gains, net	49,150	47,615	525	318	415	136	275	574	-	2,682
Other income (loss), net	(149,312)	(23,091)	(13,662)	(456)	(326)	-	(114)	-	161	(5,641)
Income (loss) before income taxes	83,508	68,175	(5,160)	717	1,163	956	2,064	3,114	266	9,282
Federal and foreign income tax (benefit) expense	(10,157)	(4,505)	(4,057)	336	857	13	(54)	1,031	6	(8,183)
Net income (loss)	$ 93,665	$ 72,680	$ (1,103)	$ 381	$ 306	$ 943	$ 2,118	$ 2,083	$ 260	$ 17,465

See accompanying notes to combined statutory basis financial statements.

(A) Eliminations represent intercompany transactions and balances for each respective account.

LIBERTY MUTUAL INSURANCE COMPANY POOL
Consolidating Statutory Statements of Income
Years ended December 31, 2003
(dollars in thousands)

	MONTGOMERY MUTUAL INSURANCE COMPANY	MERCHANTS AND BUSINESS MENS MUTUAL INSURANCE COMPANY	EMPLOYERS INSURANCE COMPANY OF WAUSAU	WAUSAU GENERAL INSURANCE COMPANY	WAUSAU UNDERWRITERS INSURANCE COMPANY	WAUSAU BUSINESS INSURANCE COMPANY	COLORADO CASUALTY INSURANCE COMPANY	BRIDGEFIELD EMPLOYERS INSURANCE COMPANY	BRIDGEFIELD CASUALTY INSURANCE COMPANY	PRUDENTIAL PROPERY & CASUALTY INSURANCE COMPANY
Premiums earned	$ 70,085	$ -	$ 1,401,417	$ 35,035	$ 35,035	$ 35,035	$ -	$ -	$ -	$ 1,071,133
Claims	46,555	-	930,864	23,272	23,272	23,272	-	-	-	711,904
Claim adjustment expenses	13,400	-	267,987	6,700	6,700	6,700	-	-	-	119,402
Underwriting and other expenses	13,813	-	276,221	6,918	6,918	6,918	-	-	-	248,021
Premium and other taxes and assessments	3,313	-	66,242	1,655	1,655	1,655	-	-	-	23,213
Total underwriting expenses	77,081	-	1,541,314	38,545	38,545	38,545	-	-	-	1,102,540
Underwriting loss before dividends	(6,996)	-	(139,897)	(3,510)	(3,510)	(3,510)	-	-	-	(31,407)
Policyholder dividends	(19)	-	(384)	(10)	(10)	(10)	-	-	-	-
Underwriting loss	(6,977)	-	(139,513)	(3,500)	(3,500)	(3,500)	-	-	-	(31,407)
Net investment income	6,832	1,832	166,957	6,167	9,063	5,886	296	7,390	1,874	89,302
Realized investment gains, net	2,212	1,235	17,373	506	703	778	-	1,041	267	59,723
Other income (loss), net	(1,804)	178	(37,320)	(903)	(906)	(903)	-	-	-	(55,123)
Income (loss) before income taxes	263	3,245	7,497	2,270	5,360	2,261	296	8,431	2,141	62,495
Federal and foreign income tax (benefit) expense	1,648	25	(17,276)	1,104	1,227	780	(1,814)	3,304	644	(57,419)
Net income (loss)	$ (1,385)	$ 3,220	$ 24,773	$ 1,166	$ 4,133	$ 1,481	$ 2,110	$ 5,127	$ 1,497	$ 119,914

See accompanying notes to combined statutory basis financial statements.

(A) Eliminations represent intercompany transactions and balances for each respective account.

LIBERTY MUTUAL INSURANCE COMPANY POOL
Consolidating Statutory Statements of Income
Years ended December 31, 2003
(dollars in thousands)

	PRUDENTIAL COMMERCIAL INSURANCE COMPANY	PRUDENTIAL GENERAL INSURANCE COMPANY	LIBERTY LLOYDS OF TEXAS INSURANCE COMPANY	LIBERTY INSURANCE UNDERWRITERS INC.	(A) COMBINING ELIMINATIONS	LMIC POOL
Premiums earned	$ -	$ -	$ -	$ (70)	$ (13)	$ 9,829,922
Claims	-	-	-	-	(12)	6,529,807
Claim adjustment expenses	11	22	-	-	(2)	1,794,353
Underwriting and other expenses	-	-	-	45	(2)	1,974,630
Premium and other taxes and assessments	-	-	-	(48)	5	437,185
Total underwriting expenses	11	22	-	(3)	(11)	10,735,975
Underwriting loss before dividends	(11)	(22)	-	(67)	(2)	(906,053)
Policyholder dividends	-	-	-	-	1	(2,401)
Underwriting loss	(11)	(22)	-	(67)	(3)	(903,652)
Net investment income	770	794	93	1,198	(1)	1,268,441
Realized investment gains, net	(1)	(2)	-	2	(29,244)	156,283
Other income (loss), net	-	50	(10)	(5,116)		(294,298)
Income (loss) before income taxes	758	820	83	(3,983)	(29,248)	226,774
Federal and foreign income tax (benefit) expense	158	166	(25)	(2,433)	(2)	(94,626)
Net income (loss)	$ 600	$ 654	$ 108	$ (1,550)	$ (29,247)	$ 321,400

See accompanying notes to combined statutory basis financial statements.

(A) Eliminations represent intercompany transactions and balances for each respective account.

LIBERTY MUTUAL INSURANCE COMPANY POOL
Combining Statement of Changes in Statutory Surplus
Years ended December 31, 2003
(dollars in thousands)

	LIBERTY MUTUAL INSURANCE COMPANY	LIBERTY MUTUAL FIRE INSURANCE COMPANY	LIBERTY INSURANCE CORPORATION	(A) LIBERTY INSURANCE CORPORATION ELIMINATIONS	LIBERTY MUTUAL INSURANCE CORPORATION	THE FIRST LIBERTY INSURANCE CORPORATION	LIBERTY INSURANCE COMPANY OF AMERICA	SURPLUS INSURANCE CORPORATION	(A) LIBERTY (EX LIC) ELIMINATIONS
Statutory surplus, beginning of year	$ 4,007,749	$ 701,778	$ 255,838	$ (240,235)	$ 16,376	$ 18,662	$ 17,051	$ 23,442	$ (75,532)
Add (deduct):									
Net income	93,665	72,680	(1,103)	-	380	306	943	2,118	(29,245)
Change in net unrealized capital gains (losses):									
From unconsolidated subsidiaries	328,697	(2,956)	-	(3,148)	-	-	-	-	(5,839)
From non-affiliated securities	239,616	45,396	8,087	-	33	40	-	-	(6,737)
Contributed capital	1,348,748	-	-	-	-	-	-	4,300	(4,300)
Change in non-admitted assets	(32,189)	-	(1,073)	-	29	(11)	-	-	-
Change in net admitted deffered tax asset	110,613	(462)	(2,763)	-	52	(1)	35	161	-
Dividends paid	-	(283,309)	-	-	-	-	-	-	-
Other surplus changes, net	26,195	18,103	(1,197)	1,197	(15)	(13)	2	1,759	20
Statutory surplus, end of year	$ 6,123,094	$ 551,230	$ 257,789	$ (242,186)	$ 16,855	$ 18,983	$ 18,031	$ 31,780	$ (121,633)

See accompanying notes to combined statutory basis financial statements.

(A) Eliminations represent intercompany transactions and balances for each respective account.

LIBERTY MUTUAL INSURANCE COMPANY POOL
Combining Statement of Changes in Statutory Surplus
Years ended December 31, 2003
(dollars in thousands)

	LIBERTY PERSONAL INSURANCE COMPANY	(A) LIBERTY PERSONAL INSURANCE COMPANY ELIMINATIONS	LIBERTY COUNTY MUTUAL INSURANCE COMPANY	(A) LIBERTY COUNTY ELIMINATIONS	GOLDEN EAGLE INSURANCE CORPORATION	(A) GOLDEN EAGLE INSURANCE CORPORATION ELIMINATIONS	MONTGOMERY MUTUAL INSURANCE COMPANY	(A) MONTGOMERY POOLED CONSOLIDATION	MERCHANTS AND BUSINESS MENS MUTUAL INSURANCE COMPANY
Statutory surplus, beginning of year	$ 43,249	$ (43,249)	$ 10,000	$ (10,000)	$ 206,895	$ (206,895)	$ 36,692	$ (18,000)	$ 8,519
				-					
Add (deduct):				-					
Net income	2,083	-	260	-	17,465	-	(1,385)	-	3,219
Change in net unrealized capital gains (losses):				-					
From unconsolidated subsidiaries	-	(352)	-	(0)	6,581	(28,179)	47	-	-
From non-affiliated securities	129	-	-	-	3,318	-	3,500	-	163
Contributed capital	-	-	(10,000)	10,000	-	-	-	-	-
Change in non-admitted assets	-	-	197	-	9,307	-	1,357	-	972
Change in net admitted deffered tax asset	33	-	(99)	-	(8,469)	-	(560)	-	(1,414)
Dividends paid	-	-	-	-	-	-	-	-	-
Other surplus changes, net	(4)	(1,889)	10,000	(10,000)	(113)	112	(393)	-	(21)
Statutory surplus, end of year	$ 45,490	$ (45,490)	$ 10,358	$ (10,000)	$ 234,984	$ (234,962)	$ 39,258	$ (18,000)	$ 11,438

See accompanying notes to combined statutory basis financial statements.

(A) Eliminations represent intercompany transactions and balances for each respective account.

LIBERTY MUTUAL INSURANCE COMPANY POOL
Combining Statement of Changes in Statutory Surplus
Years ended December 31, 2003
(dollars in thousands)

	(A) MERCHANTS AND BUSINESS MENS MUTUAL INSURANCE COMPANY ELIMINATIONS	EMPLOYERS INSURANCE COMPANY OF WAUSAU	(A) EMPLOYERS INSURANCE COMPANY OF WAUSAU ELIMINATIONS	WAUSAU GENERAL INSURANCE COMPANY	WAUSAU UNDERWRITERS INSURANCE COMPANY	WAUSAU BUSINESS INSURANCE COMPANY	(A) WAUSAU STOCK ELIMINATIONS	COLORADO CASUALTY INSURANCE COMPANY	(A) COLORADO CASUALTY INSURANCE COMPANY ELIMINATIONS	BRIDGEFIELD EMPLOYERS INSURANCE COMPANY
Statutory surplus, beginning of year	$ (2,748)	$ 700,693	$ (225,801)	$ 47,804	$ 92,786	$ 38,843	$ (179,433)	$ 9,658	$ (9,658)	$ 66,008
Add (deduct):										
Net income	-	24,773	-	1,166	4,133	1,481	-	2,110	-	5,127
Change in net unrealized capital gains (losses):										
From unconsolidated subsidiaries	-	(2)	-	-	-	-	(3,285)	-	1,688	2,147
From non-affiliated securities	-	24,273	-	169	86	52	-	-	-	-
Contributed capital	-	-	-	-	-	-	-	-	-	-
Change in non-admitted assets	-	28,878	-	6,380	49,488	26,947	-	12,463	-	3,414
Change in net admitted deffered tax asset	-	(26,889)	-	(6,649)	(52,965)	(27,020)	-	(12,311)	-	(455)
Dividends paid	-	-	-	-	-	-	-	-	-	-
Other surplus changes, net	-	(905)	-	(21)	(37)	(28)	84	-	(3,950)	(665)
Statutory surplus, end of year	$ (2,748)	$ 750,821	$ (225,801)	$ 48,849	$ 93,471	$ 40,275	$ (182,634)	$ 11,920	$ (11,920)	$ 75,576

See accompanying notes to combined statutory basis financial statements.

(A) Eliminations represent intercompany transactions and balances for each respective account.

LIBERTY MUTUAL INSURANCE COMPANY POOL
Combining Statement of Changes in Statutory Surplus
Years ended December 31, 2003
(dollars in thousands)

	(A) BRIDGEFIELD EMPLOYERS INSURANCE COMPANY ELIMINATIONS	BRIDGEFIELD CASUALTY INSURANCE COMPANY	(A) BRIDGEFIELD CASUALTY INSURANCE COMPANY ELIMINATIONS	PRUDENTIAL PROPERY & CASUALTY INSURANCE COMPANY	(A) PRUDENTIAL PROPERY & CASUALTY INSURANCE COMPANY ELIMINATIONS	PRUDENTIAL COMMERCIAL INSURANCE COMPANY	(A) PRUDENTIAL COMMERCIAL INSURANCE COMPANY ELIMINATIONS	PRUDENTIAL GENERAL INSURANCE COMPANY	(A) PRUDENTIAL GENERAL INSURANCE COMPANY ELIMINATIONS	LIBERTY LLOYDS OF TEXAS INSURANCE COMPANY
Statutory surplus, beginning of year	$ (66,008)	$ 12,211	$ (12,211)	$ 518,546	$ (518,546)	$ 14,078	$ (14,078)	$ 13,709	$ (13,709)	$ 5,112
Add (deduct):										
Net income	-	1,497	-	119,914	-	600	-	654	-	108
Change in net unrealized capital gains (losses):										
From unconsolidated subsidiaries	(9,568)	-	(2,302)	(10,576)	(34,964)	-	(97)	-	(88)	-
From non-affiliated securities	-	11	-	5,177	-	-	-	-	-	206
Contributed capital	-	4,000	(4,000)	(81,753)	(589,000)	-	-	-	-	-
Change in non-admitted assets	-	1,073	-	87,516	-	(9)	-	(163)	-	(1)
Change in net admitted deffered tax asset	-	(398)	-	(72,992)	-	2	-	52	-	2
Dividends paid	-	-	-	-	-	-	-	-	-	-
Other surplus changes, net	-	119	-	29,394	518,546	-	14,078	-	13,709	-
Statutory surplus, end of year	$ (75,576)	$ 18,513	$ (18,513)	$ 595,226	$ (623,964)	$ 14,671	$ (97)	$ 14,252	$ (88)	$ 5,427

See accompanying notes to combined statutory basis financial statements.

(A) Eliminations represent intercompany transactions and balances for each respective account.

LIBERTY MUTUAL INSURANCE COMPANY POOL
Combining Statement of Changes in Statutory Surplus
Years ended December 31, 2003
(dollars in thousands)

	(A) LIBERTY LLOYDS OF TEXAS INSURANCE COMPANY ELIMINATIONS	LIBERTY INSURANCE UNDERWRITERS INC.	(A) LIH INSURANCE ELIMINATIONS (LIU)	(A) LIMITED PARTNERSHIP ELIMINATIONS	LIBERTY RECLASS	ADJUSTMENTS	LMIC POOL
Statutory surplus, beginning of year	$ (5,112)	$ 6,426	$ (6,426)	$ 7,046	$ -	$ 3	$ 5,231,533
Add (deduct):							
Net income	-	(1,550)	-	-	-	1	321,400
Change in net unrealized capital gains (losses):							
From unconsolidated subsidiaries	(315)	-	(3,093)	-	-	(4)	234,392
From non-affiliated securities	-	-	-	-	-	-	323,519
Contributed capital	-	50,000	(50,000)	-	(296,137)	1	381,859
Change in non-admitted assets	-	-	(1,241)	-	(149,566)	(2)	43,746
Change in net admitted deffered tax asset	-	-	-	-	197,193	(1)	94,695
Dividends paid	-	-	-	-	283,309	-	-
Other surplus changes, net	-	5,883	-	(400)	(34,799)	3	584,754
Statutory surplus, end of year	$ (5,427)	$ 60,759	$ (60,760)	$ 6,646	$ -	$ 1	$ 7,215,898

See accompanying notes to combined statutory basis financial statements.

(A) Eliminations represent intercompany transactions and balances for each respective account.

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COMBINED STATUTORY BASIS FINANCIAL STATEMENTS

Liberty Mutual Insurance Company Pool
Years ended December 31, 2004 and 2003

■ Ernst & Young LLP
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Report of Independent Auditors

The Board of Directors
Liberty Mutual Holding Company Inc.

We have audited the accompanying combined statutory basis balance sheets of the Liberty Mutual Insurance Company Pool (the Companies) as of December 31, 2004 and 2003, and the related combined statutory basis statements of income, changes in statutory surplus, and cash flows 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 did not audit the financial statements of Prudential Property and Casualty Insurance Company, Prudential General Insurance Company, and Prudential Commercial Insurance Company, (collectively referred to as PruPac), wholly-owned subsidiaries, which statements reflect total assets and pre-tax income constituting 5 percent and 11 percent, respectively, of the related combined totals as of and for the year ended December 31, 2003. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for PruPac, is based solely on the report of the other auditors.

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. We were not engaged to perform an audit of the Companies' internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Companies' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors 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 are described in Note 1. The effects on the financial statements of these variances are not reasonably determinable, but are presumed to be material.

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 the Companies at December 31, 2004 and 2003, or the results of their operations or their cash flows for the years then ended.

However, in our opinion, based on our audits and the report of the other auditors, the combined statutory basis financial statements referred to above present fairly, in all material respects, the combined statutory basis financial position of the Liberty Mutual Insurance Companies at December 31, 2004 and 2003, and the combined statutory basis 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.

Ernst + Young LLP

May 18, 2005

Liberty Mutual Insurance Company Pool

Combined Statutory Basis Balance Sheets

(dollars in thousands)

	2004	2003
Admitted Assets		
Investments:		
Fixed maturities	$ 19,854,319	$ 18,933,635
Common and preferred stocks	1,647,018	1,433,992
Investments in affiliates	3,641,778	2,893,627
Cash and short-term investments	1,051,693	973,788
Companies occupied properties	265,616	250,319
Other invested assets	872,075	680,270
Total cash and invested assets	27,332,499	25,165,631
Premiums receivable, net	3,612,717	3,446,579
Deferred tax asset, net	722,366	635,086
Federal income taxes receivable	40,598	-
Reinsurance recoverable on paid losses, net	451,534	403,028
Receivable from affiliates	-	161,004
Funds held by affiliates and other reinsurers	24,061	681,554
Other admitted assets	917,596	890,003
Total admitted assets	$ 33,101,371	$ 31,382,885
Liabilities and Surplus		
Liabilities:		
Unpaid claims	$ 13,557,044	$ 13,384,118
Unpaid claim adjustment expenses	2,561,350	2,615,366
Unearned premiums	4,033,919	3,835,261
Other liabilities and deposits	825,368	966,165
Funds held under reinsurance contracts	2,236,243	2,313,427
Ceded reinsurance premiums payable	587,636	632,047
Taxes, licenses and fees accrued	366,025	401,783
Federal income taxes accrued	-	15,312
Payable to affiliates	231,854	-
Policyholder dividends accrued	6,076	3,508
Total liabilities	24,405,515	24,166,987
Surplus:		
Surplus notes	1,012,851	1,141,346
Special and other surplus funds	1,141,870	1,115,597
Contributed capital	2,336,397	1,476,460
Unassigned surplus	4,204,738	3,482,495
Total surplus	8,695,856	7,215,898
Total liabilities and surplus	$ 33,101,371	$ 31,382,885

See accompanying notes to the combined statutory basis financial statements

Liberty Mutual Insurance Company Pool

Combined Statutory Basis Statements of Income

For the Years Ended December 31, 2004 and 2003

(dollars in thousands)

	2004	2003
Premiums earned	$ 9,701,041	$ 9,829,922
Claims	6,452,040	6,529,807
Claim adjustment expenses	1,583,543	1,794,353
Underwriting and other expenses	1,976,996	1,974,630
Premium and other taxes and assessments	438,474	437,185
Total underwriting expenses	10,451,053	10,735,975
Underwriting loss before dividends	(750,012)	(906,053)
Policyholder dividends	39,433	(2,401)
Underwriting loss	(789,445)	(903,652)
Net investment income	1,059,200	1,268,441
Realized investment gains, net	330,554	156,283
Other loss, net	(183,491)	(294,298)
Income before income taxes	416,818	226,774
Federal and foreign income tax benefit	(55,824)	(94,626)
Net income	$ 472,642	$ 321,400

See accompanying notes to the combined statutory basis financial statements

Liberty Mutual Insurance Company Pool

Combined Statements of Changes in Statutory Surplus

For the Years Ended December 31, 2004 and 2003

(dollars in thousands)

	2004	2003
Statutory surplus, beginning of year	$ 7,215,898	$ 5,231,533
Add (deduct):		
Net income	472,642	321,400
Change in net unrealized capital gains:		
From unconsolidated subsidiaries	171,201	234,392
From non-affiliated securities	123,291	323,519
Contributed capital	768,837	381,859
Change in non-admitted assets	(42,945)	43,746
Change in net admitted deferred tax asset	87,280	94,695
Pooled company affiliations	30,790	-
Surplus note retirement	(128,495)	-
Other surplus changes, net	(2,643)	584,754
Statutory surplus, end of year	$ 8,695,856	$ 7,215,898

See accompanying notes to the combined statutory basis financial statements

Liberty Mutual Insurance Company Pool

Combined Statutory Basis Statements of Cash Flows

For the Years Ended December 31, 2004 and 2003

(dollars in thousands)

	2004	2003
Cash provided:		
From operations:		
Premiums collected	$ 9,659,336	$ 9,851,638
Investment income and other income, net	1,827,636	1,738,674
Claim and claim adjustment expenses	(6,776,313)	(7,511,690)
Underwriting and other expenses, net	(3,063,067)	(2,997,829)
Net cash provided by operations	1,647,592	1,080,793
From investments sold and matured:		
Fixed maturities	12,642,990	12,939,220
Common and preferred stocks	1,798,371	1,413,097
Investments in affiliates	15,803	752,787
Other investments	272,555	410,430
Cash provided by investments	14,729,719	15,515,534
Capital and paid in surplus	768,837	381,859
Total cash provided	17,146,148	16,978,186
Cash applied:		
Cost of investments purchased:		
Fixed maturities	13,982,810	14,730,539
Common and preferred stocks	1,650,055	1,340,584
Investments in affiliates	342,947	172,761
Other investments	859,903	771,372
Cash applied to investments	16,835,715	17,015,256
Surplus notes and capital notes	128,495	(324)
Borrowed funds	10,774	404,844
Other applications	32,816	225,075
Other, net	172,085	629,595
Total cash applied	17,007,800	17,644,851
Decrease due to Pool reorganization	(60,443)	-
Net increase (decrease) in cash and short-term investments	77,905	(666,665)
Cash and short-term investments, beginning of year	973,788	1,640,453
Cash and short-term investments, end of year	$ 1,051,693	$ 973,788

See accompanying notes to the combined statutory basis financial statements

LIBERTY MUTUAL INSURANCE COMPANY POOL

Notes to Combined Statutory Basis Financial Statements

(dollars in thousands)

(1) Summary of Significant Accounting Policies

(a) Organization

The accompanying combined statutory basis financial statements of Liberty Mutual Insurance Company ("LMIC"), Liberty Mutual Fire Insurance Company ("LMFIC"), Employers Insurance Company of Wausau ("EICOW") and Liberty County Mutual Insurance Company ("LCMIC"), collectively referred to as the "Companies", include, on a combined basis, the accounts of their U.S. property and casualty insurance subsidiaries. LMIC, LMFIC and EICOW are wholly owned subsidiaries of Liberty Mutual Group Inc. ("LMGI"). LMGI is 100% owned by LMHC Massachusetts Holdings, Inc. ("LMHC MHI") and LMHC MHI is owned 100% by Liberty Mutual Holding Company, Inc. ("LMHCI").

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

(b) Basis of Presentation

The accompanying 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").

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 National Association of Insurance Commissioners ("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 policyholders' surplus for those designated as available-for-sale.

All single class and multi-class mortgage-backed/asset-backed securities (e.g., CMOs) are adjusted for the effects of changes in prepayment assumptions on the related accretion of discount or amortization of premium of such securities using either the retrospective or prospective methods. If it is determined that a decline in fair value is other than temporary, the cost basis of the security is written down to the undiscounted estimated future cash flows. For GAAP purposes, all securities, purchased or retained, that represent beneficial interests in securitized assets (e.g., CMO, CBO, CDO, CLO, MBS and ABS securities), other than high credit quality securities, are adjusted using the prospective method when there is a change in estimated future cash flows. If it is determined that a decline in fair value is other-than-temporary, the cost basis of the security is written down to the discounted fair value. If high credit quality securities are adjusted, the retrospective method is used.

Derivative instruments that meet the criteria of an effective hedge are valued and reported in a manner that is consistent with the hedged asset or liability. Embedded derivatives are not accounted for separately from the host contract. Under GAAP, the effective and ineffective portions of a single hedge are accounted for separately. Additionally, under GAAP, an embedded derivative within a contract that is not clearly and closely related to the economic characteristics and risk of the host contract is accounted for separately from the host contract and valued and reported at fair value. The change in fair value for cash flow hedges is credited or charged directly to a separate component of equity rather than to income as required for fair value hedges.

Undistributed results of limited partnerships are reflected in unrealized gains on a statutory basis while under GAAP, undistributed earnings are reflected in net investment income or unrealized gains, depending on how the limited partnerships account for unrealized gains.

Subsidiaries: The accounts and operations of the Companies' subsidiaries are not consolidated with the accounts and operations of the Companies as would be required under GAAP.

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. Goodwill is an admitted asset subject to an aggregate limitation of 10% of the capital and surplus in the most recently filed annual statement excluding EDP equipment, operating system software, net deferred tax assets and net positive goodwill. Goodwill is amortized on a straight-line basis over a period not to exceed ten years and reflected as a component of unrealized capital gain or loss for unconsolidated subsidiaries and other surplus changes. Under GAAP, goodwill is not amortized but is subject to an assessment for impairment on an annual basis, or more frequently if circumstances indicate that a possible impairment has occurred.

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 incurred to the extent the amount does not exceed actual acquisition costs, rather than being deferred and amortized with deferred policy acquisition costs, as required under GAAP. Any excess commission is deferred and recognized over the policy term consistent with GAAP.

Nonadmitted Assets: Certain assets are designated as "nonadmitted," principally premiums receivable greater than ninety days past-due, furniture and equipment, deferred tax assets in excess of statutory limitations, goodwill in excess of statutory limitations, other intangible assets, and any other asset not specifically identified as an admitted asset within the NAIC Accounting Practices and Procedures Manual ("APP Manual"), and are excluded from the accompanying balance sheets and charged or credited directly to unassigned surplus. Under GAAP, such assets are included in the balance sheet, net of any valuation allowance required.

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

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.

LIBERTY MUTUAL INSURANCE COMPANY POOL

Notes to Combined Statutory Basis Financial Statements

(dollars in thousands)

Reinsurance: A liability for reinsurance balances has been established for unsecured unearned premiums and unpaid losses ceded to reinsurers not authorized to transact business in certain states of domicile ("unauthorized reinsurance") and for certain overdue reinsurance balances. Changes to those amounts are credited or charged directly to unassigned surplus. Under GAAP, an allowance for amounts deemed uncollectible would be established through a charge to earnings.

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. Under GAAP, such gains are deferred and recognized in income using the effective interest method over the expected settlement date.

Deferred Income Taxes: 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 capital and surplus excluding any net deferred tax assets, EDP equipment and operating software, and any net positive goodwill ("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 income taxes. Under GAAP, state income 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. The difference between proceeds received and the face value of the surplus notes is amortized using the effective interest method over the period to maturity. Interest expense on surplus notes is reported as a component of net investment income when approved to be paid by the Commissioner of Insurance for the Commonwealth of Massachusetts. Under GAAP, surplus notes are reported as debt and the associated interest is reported as interest expense in the period incurred.

Guaranty Funds and Other Assessments: The Companies are subject to guaranty funds and other assessments by the states in which it writes business. Guaranty funds and other assessments are 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. Other assessments should be accrued either at the time of assessments or in the case of premium based assessments, at the time the premiums are written, or, in the case of loss based assessments, at the time the losses are incurred. Under GAAP, the assessment is typically accrued when premiums are written because the assessment generally is based on prospective premium writings.

LIBERTY MUTUAL INSURANCE COMPANY POOL

Notes to Combined Statutory Basis Financial Statements

(dollars in thousands)

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

The effects of the foregoing variances from GAAP on the accompanying combined statutory basis financial statements have not been determined, but are presumed to be material.

The preparation of financial statements in conformity with accounting practices prescribed or permitted by the insurance departments of the states in which the Companies are domiciled requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. While management believes that the amounts included in the combined statutory basis financial statements reflect their best estimates and assumptions, these amounts could ultimately be materially different from the amounts currently provided for in financial statements as more information becomes known.

(c) ***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, using the interest method. Unaffiliated common stocks are carried at market value as determined by the NAIC Securities Valuation Office (SVO). Preferred stocks are carried at cost or market value in accordance with the SVO Manual. There are no restrictions on common or preferred stock.

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. Non-investment grade mortgage-backed/asset-backed securities are stated at the lower of amortized value or fair value.

Investments in affiliated common stock of insurers and noninsurers are generally recorded at the subsidiaries' underlying statutory equity and GAAP equity basis, respectively. The net change in the subsidiaries' equity is included in the change in net unrealized capital gains or losses. Investments in venture capital limited partnerships are carried on the equity method. Dividends or distributions received from affiliates are recognized in investment income when declared to the extent that they are not in excess of the undistributed accumulated earnings attributable to the Companies' investment in affiliated common stock. Dividends or distributions declared in excess of the undistributed accumulated earnings attributable to the affiliated entity reduces the carrying amount of the Companies' investment.

Short-term investments include investments with remaining maturities of one year or less at the time of acquisition and are carried at cost.

Company-occupied properties are carried at depreciated cost. Depreciation is calculated on the straight-line basis over the estimated useful lives of the properties.

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 along with any adjustment for deferred federal income taxes. 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's financial condition. Unrealized losses that are other-than-temporary are recognized in earnings.

(d) ***Fair Values of Financial Instruments***
The Companies have used the following methods and assumptions in estimating the fair value 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.

Funds held under reinsurance contracts (asset or liability): The carrying amounts reported in the balance sheets for these instruments approximate their fair values.

(e) ***Securities Lending***
The Companies engage in securities lending activities whereby certain investment securities are loaned to other institutions for short periods of time. The Companies generally receive cash or short-term investments collateral from the borrower, equal to or in excess of 102% of the market value of the loaned securities, and reinvests the cash collateral in short-term investments. The loaned securities remain a recorded asset of the Companies, however, the Companies record a liability for the amount of collateral held, representing its obligation to return the collateral related to the loaned securities.

(f) ***Premiums***
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.

(g) ***Premium Deficiency Reserves***
When the anticipated losses, loss adjustment expenses, commissions, other acquisition costs and maintenance costs that have not previously been expensed exceed the recorded unearned premium

reserve, future installment premiums on existing policies, and anticipated investment income on existing policies, a premium deficiency reserve is established.

(h) *Reinsurance*
Prospective reinsurance premiums, losses, and loss adjustment expenses are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

For reinsurance contracts that do not transfer insurance risk or that transfer risk, but are retroactive, the cash transactions between the ceding and assuming companies are reflected in the balance sheet as a deposit. Other income or loss is recognized when cash is transferred subsequent to the depletion of the deposit or through the elimination of any remaining deposit upon the completion of the contract. The amount of the deposit asset (or liability) is adjusted by calculating the effective yield on the deposit to reflect actual payments to date and expected future payments with a corresponding credit or charge to interest income or expense.

(i) *Losses and Loss Adjustment Expenses Reserves*
The Companies establish reserves for unpaid claims and claim adjustment expenses covering events that occurred in 2004 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 might not occur for several years. Reserve estimates are continually reviewed and updated as necessary as experience develops or new information becomes known, and any resulting adjustments are reflected in current operating results.

The Companies write insurance policies that cover catastrophic events. The Companies' policies cover unpredictable natural and other disasters, such as hurricanes, windstorms, earthquakes, floods, fires, terrorist attacks and explosions. Although the Companies carry reinsurance to mitigate their exposure to certain catastrophic events, claims from catastrophic events could reduce the Companies' earnings and cause substantial volatility in its financial results for any year and adversely affect their financial condition or results of operations.

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

(j) *Dividends*
Policyholder dividends are recognized when declared rather than over the term of the related policies.

For domestic property-casualty insurance, certain insurance contracts, primarily workers' compensation policies, are issued with dividend plans, to be paid subject to approval by the insurer's

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board of directors. Such policies approximate 2% of domestic property-casualty insurance premiums written at December 31, 2004 and 2003.

(k) ***Foreign Exchange***
The Companies convert foreign currencies to U.S. dollars 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.

(l) Intercompany Pooling Arrangements
The accompanying combined statutory basis financial statements of the Companies represent the Liberty Mutual Insurance Company Pool ("LM Pool").

In addition to pooling underwriting results and other income and expenses, the LM Pool members share in related balance sheet activity based on the terms of the LM Pooling and fronting agreements and the pool members respective pooling percentages below.

		NAIC Company Number	2004 Pooling Percentage
Lead Company	Liberty Mutual Insurance Company ("LMIC")	23043	66.5%
Affiliated Pool Companies	Employers Insurance Company of Wausau ("EICOW")	21458	16.0%
	Liberty Mutual Fire Insurance Company ("LMFIC")	23035	10.0%
	Liberty Insurance Corporation ("LIC")	42404	6.00%
	Wausau Business Insurance Company ("WBIC")	26069	0.40%
	Wausau General Insurance Company ("WGIC")	26425	0.40%
	Wausau Underwriters Insurance Company ("WUIC")	26042	0.40%
	LM Insurance Company ("LM Insurance")	33600	0.20%
	The First Liberty Insurance Corporation ("First Liberty")	33588	0.10%
100% Quota Share Fronted Affiliated Companies	Liberty Surplus Insurance Corporation ("LSIC")	10725	0.00%
	Liberty Lloyds of Texas Insurance Company ("Lloyds")	11041	0.00%
	Liberty Insurance Company of America ("LICA")	10337	0.00%
	Liberty Personal Insurance Company ("LPIC")	11746	0.00%
	Liberty County Mutual Insurance Company ("LCMIC")	19544	0.00%
	Liberty Insurance Underwriters, Inc. ("LIU")	19917	0.00%
	Bridgefield Employers Insurance Company ("BEIC")	10701	0.00%
	Bridgefield Casualty Insurance Company ("BCIC")	10335	0.00%
	LM Property and Casualty Insurance Company ("LMPAC")—formerly known as Prudential Property and Casualty Insurance Company	32352	0.00%
	LM General Insurance Company ("LMGIC")—formerly known as Prudential General Insurance Company	36447	0.00%
	LM Personal Insurance Company ("LMPIC")—formerly known as Prudential Commercial Insurance Company	36439	0.00%

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All LM Pool company cessions to non-affiliated reinsurers are reported and ceded on an individual company basis prior to the cession of pooled business from the affiliated pool members, except for WBIC, WGIC and WUIC, to the lead company, LMIC. WBIC, WGIC and WUIC cede 100% of their direct underwriting activity to EICOW following all cessions to non-affiliated reinsurers. All cessions from LMIC to non-affiliated reinsurers are reported and ceded through the lead company, LMIC. All cessions to non-affiliated reinsurers are done subsequent to the cession of pooled business from the affiliated pool members to the lead company.

LMGIC and LMPIC, after external reinsurance, cede their net underwriting activity to LMPAC. LMPAC cedes the majority of its underwriting results to LMIC. LMPAC does retain certain defined lines of business within its own legal entity.

Effective November 1, 2003, LMIC entered into a 100% quota share reinsurance agreement with LMPAC. As such, LMPAC's results prior to November 1, 2003 were not included in the intercompany pooling.

Pursuant to the approval of the appropriate State Insurance Departments, effective January 1, 2004, General Eagle Insurance Co. ("GEIC") and Montgomery Mutual Insurance Co. ("MMIC"), cancelled their participation in the LM Pool and concurrently became a member of the Liberty Insurance Holding ("LIH") Pool. Also effective January 1, 2004, GEIC entered into a Fronting Agreement with LMIC, whereby it would continue to cede 100% of its workers' compensation activity to LMIC.

Additionally, pursuant to the approval of the appropriate state insurance departments, effective January 1, 2004, Merchants and Business Men's Mutual Insurance Co. ("M&B") and Colorado Casualty Insurance Co. ("CCIC") cancelled their fronting agreements with LMIC and concurrently entered into fronting agreements with Peerless Insurance Co. ("PIC"). Under the terms of the fronting agreements, after processing its external reinsurance, each company cedes 100% of its direct underwriting activity to PIC.

The above transactions resulted in the companies transferring their in-force business and related statutory book value of assets and statutory value of liabilities, as of January 1, 2004, (except for GEIC's workers' compensation business), from the LM Pool to the LIH Pool and compensating the companies in the LIH Pool by a like amount.

(m) ***Related Party Transactions***
LMIC has service agreements with its subsidiaries and several affiliated companies. Under the agreements, LMIC provides its affiliated companies with office space, supplies, equipment, telephone and wire services, the use of computers and similar machines and services of personnel employed by LMIC. Services include but are not limited to the following: claims handling, credit and collections, sales policy production, underwriting, investment management, and a variety of computer activities. LMIC is reimbursed for the costs of all services which it provides under these agreements.

Pursuant to an Employee Benefit Plans Cost-Sharing Agreement, LMIC has agreed to reimburse LMGI for certain costs related to one or more employee benefit or welfare plans covering current or past employees of LMIC or its affiliates which have been transferred to LMGI or which may be transferred to LMGI in the future. The amount of the reimbursement is the required contributions to the pension plans and with respect to other plans, the benefits incurred on the Companies' behalf.

(dollars in thousands)

(n) ***Reclassifications***
Certain 2003 amounts in the Companies' combined statutory basis financial statements have been reclassified to conform to the 2004 financial statement presentation.

(2) Investments
(a) ***Fixed Maturities***
The amortized cost and fair values of fixed maturity securities at December 31, 2004 and 2003, are as follows:

December 31, 2004	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$ 1,755,401	$ 20,319	$ (13,288)	$ 1,762,432
Mortgage and asset-backed securities of government and corporate agencies	8,727,803	160,620	(33,622)	8,854,801
State and political subdivisions	840,249	43,091	(1,503)	881,837
Corporate and other	8,530,866	181,824	(41,552)	8,671,138
Total fixed maturities	$ 19,854,319	$ 405,854	$ (89,965)	$20,170,208

December 31, 2003	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$ 1,854,666	$ 28,597	$ (14,146)	$ 1,869,117
Mortgage and asset-backed securities of government and corporate agencies	7,675,652	211,124	(41,787)	7,844,989
State and political subdivisions	608,789	54,146	(6,528)	656,407
Corporate and other	8,794,528	516,879	(50,960)	9,260,447
Total fixed maturities	$ 18,933,635	$ 810,746	$ (113,421)	$19,630,960

The amortized cost and fair values of fixed maturity securities at December 31, 2004, by contractual maturity, are as follows:

	Amortized Cost	Fair Value
Due to mature:		
One year or less	$ 343,052	$ 319,770
Over one year through five years	2,547,384	2,563,251
Over five years through ten years	4,217,333	4,290,949
Over ten years	4,018,747	4,141,437
Mortgage and asset-backed securities	8,727,803	8,854,801
Total fixed maturities	$ 19,854,319	$ 20,170,208

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Expected maturities may differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(b) ***Common and Preferred Stocks and Other Investments***
The cost of common and preferred stocks and other investments at December 31, 2004 and 2003 was as follows:

	2004	2003
Common stocks	$ 909,351	$ 775,893
Preferred stocks	106,754	125,325
Other investments	738,356	634,677
	$ 1,754,461	$ 1,535,895

*(c) **Investments in Affiliates***
Investments in affiliates consist primarily of the Companies' investments in insurance, international, and financial services subsidiaries. The Companies' equity in the net assets of subsidiaries is summarized as follows at December 31, 2004 and 2003:

	2004	2003
Total assets	$23,752,527	$20,305,034
Total liabilities	(20,110,749)	(17,411,407)
Companies' equity in net assets	$ 3,641,778	$ 2,893,627

Equity in net assets of unconsolidated subsidiaries is distributed as follows at December 31, 2004 and 2003:

	2004	2003
International subsidiaries	$ 1,045,556	$ 927,367
Liberty Insurance Holdings Property-Casualty Companies	1,666,342	1,180,721
Wausau Service Corp.	14,903	17,376
Liberty Northwest Insurance Corporation	205,766	192,357
Liberty Life Assurance Company of Boston	302,619	142,699
Other subsidiaries and non-admitted goodwill	406,592	433,107
Equity in net assets of unconsolidated subsidiaries	$ 3,641,778	$ 2,893,627

The remaining unamortized goodwill and other intangible asset balances included as a component of the Companies' investments in unconsolidated subsidiaries at December 31, 2004 and 2003 were $349,781 and $272,908, respectively, with corresponding goodwill amortization of $55,937 and $42,850 during 2004 and 2003, respectively.

In December 2004, LMIC's subsidiary Liberty Massachusetts Trust was dissolved and in its place, Liberty International Holdings LLC ("LIH LLC") and Liberty Mutual Captive Holding LLC ("LMCH LLC), both Delaware companies, were formed. Upon the formation of the LLCs, LMIC's investment in Liberty International Holdings, Inc. and the Bermuda captive insurance companies was changed from a common stock affiliated investment to an other invested asset. This was accounted for as a non-cash transaction. LMIC's carrying value in LIH LLC and LMCH LLC was $677,374 and $33,445 at December 31, 2004, respectively.

(dollars in thousands)

In November 2004, the Companies formed Liberty Spain Insurance Group LLC ("LSIG"), a Delaware company, and LMIC transferred its direct ownership in Liberty Insurance Group Compania de Seguros y Reaseguros S.A. (Spain) to LSIG. Upon the formation of the LLC, LMIC's direct investment in Spain changed from a common stock affiliated investment to an other invested asset. This was accounted for as a non-cash transaction. LMIC's carrying value in LSIG at December 31, 2004 was $292,420.

During 2004, LMIC received a $3,000 dividend from Liberty Mutual Capital Corporation (Boston) ("LMCC") and subsequent to the dividend, LMCC was sold to LMGI at statutory book value. After LMCC was sold to LMGI, LMCC was merged with and into LMGI.

In October 2003, the Companies received dividends in the amount of $559,859 from its majority owned subsidiary, Liberty Mutual Equity Corporation, LLC. $203,438 of the dividend was recorded as dividend income within the combined statutory basis statement of income and $356,421 was recorded as a reduction in the book value of the subsidiary.

In July 2003, the Companies received dividends in the amount of $247,608 from its majority owned subsidiary, Liberty Massachusetts Trust that was recorded as a reduction in the book value of the subsidiary.

(d) ***Realized Investment Gains (Losses)***
Realized investment gains (losses) were as follows in 2004 and 2003:

	2004	2003
Fixed maturities:		
Gross gains	$ 273,469	$ 297,148
Gross losses	(28,801)	(90,626)
Common and preferred stocks:		
Gross gains	101,584	159,795
Gross losses	(81,258)	(113,279)
Other investments:		
Gross gains	68,265	11,520
Gross losses	(2,705)	(108,275)
	$ 330,554	$ 156,283

Proceeds from sales of fixed maturity investments during 2004 and 2003, were $6,489,116 and $6,747,590, respectively.

Realized capital losses included other-than-temporary impairment write-downs of $66,599 and $157,211 in 2004 and 2003, respectively.

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The following table shows a schedule of the Companies' unrealized losses and fair value by security type by duration of potential impairment at December 31, 2004.

	Less Than 12 Months		Greater Than 12 Months	
	Unrealized Losses	**Fair Value of Investments with Unrealized Losses**	**Unrealized Losses**	**Fair Value of Investments with Unrealized Losses**
U.S. Treasury Securities	$ (10,233)	$ 803,710	$ (3,055)	$ 93,585
Mortgage and asset-backed securities of government and corporate agencies	(18,370)	1,894,006	(15,252)	388,125
State and political subdivisions	(436)	107,071	(1,067)	22,964
Corporate and other	(16,590)	1,713,036	(24,962)	594,338
Equities	(10,793)	95,037	(3,499)	16,337
Total	$ (56,422)	$ 4,612,860	$ (47,835)	$ 1,115,349

The majority of unrealized losses reported in the corporate and other category involve holdings where the market value is less than 10% below book value. Also included in these unrealized losses are amounts relating to securities issued and guaranteed by agencies of the U.S. Government.

The equity holdings reflecting unrealized losses were not deemed to be impaired on an other-than-temporary basis under the Companies' impairment policy.

The unrealized losses on the securities above are subject to review during each quarterly impairment analysis cycle.

The Companies employ a systematic methodology to evaluate declines in fair value below the book value for equity securities and other investments. The methodology utilizes a quantitative and qualitative process ensuring that available evidence concerning the declines in fair value below carrying value is evaluated in a disciplined manner. Based on that evaluation and the Companies' ability and intent to hold these investments for a reasonable period of time sufficient for a recovery of fair value, the Companies view the decline in market value of these investments as being temporary in accordance with the Companies' impairment policy.

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(dollars in thousands)

The following table shows a schedule of the Companies' unrealized losses and fair value by security type by duration of potential impairment at December 31, 2003.

	Less Than 12 Months		Greater Than 12 Months	
	Unrealized Losses	Fair Value of Investments with Unrealized Losses	Unrealized Losses	Fair Value of Investments with Unrealized Losses
U.S. Treasury Securities	$ (14,146)	$ 572,339	$ -	$ -
Mortgage and asset-backed securities of government and corporate agencies	(37,764)	2,166,079	(4,023)	67,705
State and political subdivisions	(6,426)	289,770	(102)	2,475
Corporate and other	(50,388)	1,733,404	(572)	8,039
Equities	(19,284)	95,054	(14,814)	51,565
Total	$ (128,008)	$ 4,856,646	$ (19,511)	$ 129,784

The majority of unrealized losses reported in the corporate and other category involve holdings where the market value is less than 10% below book value. Also included in these unrealized losses are amounts relating to securities issued and guaranteed by agencies of the U.S. Government.

The equity holdings reflecting unrealized losses were not deemed to be impaired on an other-than-temporary basis under the Companies' impairment policy.

The unrealized losses on the securities above are subject to review during each quarterly impairment analysis cycle.

The Companies have cost method investments consisting primarily of equities with a market value of $124,070 at December 31, 2004. All of the Companies' cost method investments are evaluated systematically for identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investment.

(e) Net Investment Income

Net investment income for the years ended December 31, 2004 and 2003, consisted of:

	2004	2003
Fixed maturities	$ 1,074,869	$ 1,080,647
Common and preferred stocks	92,893	303,156
Short-term investments	15,007	16,340
Other	21,787	89,259
Gross investment income	1,204,556	1,489,402
Investment and interest expense	(145,356)	(220,961)
Net investment income	$ 1,059,200	$ 1,268,441

(dollars in thousands)

(f) *Statutory Deposits*
At December 31, 2004 and 2003, fixed maturity securities carried at $3,963,148 and $4,271,995, respectively, were on deposit with state insurance departments to satisfy regulatory requirements.

(g) *Securities Loaned*
At December 31, 2004, the market value of fixed maturity securities loaned was approximately $205,428. Cash and short-term investments received as collateral in connection therewith at December 31, 2004 was approximately $69,375, while non-cash collateral received in connection therewith was approximately $139,748.

(3) **Discontinued Operations**
In September 2003, LMHC's Board of Directors approved a plan to dispose of its Canadian personal lines property and casualty operations (automobile and homeowners insurance) and LMIC's wholly-owned subsidiary, Liberty Insurance Company of Canada. On April 1, 2004, the Company completed the sale to Meloche Monnex, Inc. a member of TD Bank Financial Group ("Meloche Monnex"). The transaction resulted in the transfer of approximately 350,000 automobile and homeowner insurance policies and approximately $300,000 (C$390,000) in direct written premiums to Meloche Monnex. During 2003, and as a result of the impending sale, LMIC recognized an impairment loss of $18,353 in the accompanying combined statutory basis statement of income.

The results of the discontinued operations of the Canadian personal lines property and casualty operations included in the combined statutory basis statements of income is as follows:

	2004	2003
Premiums earned	$ 54,926	$ 194,968
Income before income taxes	9,149	8,953
Federal and foreign income tax expense	605	6,827
Net income	$ 8,544	$ 2,126

Total assets and liabilities of the discontinued operations of the Canadian personal lines property and casualty operations included in the combined statutory basis balance sheet are as follows:

	2003
Assets:	
Premium and other receivables	$ 81,788
Receivable from affiliates	468,562
Other assets	14,220
Total assets	$ 564,570
Liabilities:	
Unpaid claims and claim adjustment expense	$ 239,989
Unearned premiums	111,170
Other liabilities	3,413
Total liabilities	$ 354,572

(4) Acquisitions

On October 31, 2003, LMGI acquired all the outstanding stock of Prudential Property and Casualty Insurance Company, Prudential General Insurance Company, and Prudential Commercial Insurance Company (collectively referred to as "PruPac") from Prudential Financial ("Prudential"). The acquisition includes PruPac's U.S. personal lines property and casualty business and operations in 47 states, excluding the New Jersey business and also excluding the specialty automobile and affinity business. The cost of PruPac was $520,000 and consideration was a combination of cash and two series of promissory notes to Prudential. The Series A promissory note had an aggregate principal balance of $130,000, due October 31, 2008 and accrued interest annually at an interest rate of 7%. On April 16, 2004, LMGI repaid this note. The Series B promissory note has an aggregate principal balance of $260,000, matures on October 31, 2013 and accrues interest annually at a rate of 8%.

In connection with the acquisition, LMGI acquired the discontinued channels business of PruPac's agency business. Prudential, through its wholly-owned subsidiary, Vantage Casualty Insurance Company ("Vantage"), reinsured and guaranteed 100% of the first $50,000 and 75% of the next $60,000 of the net losses of operations. To support the surplus of PruPac in writing the discontinued channels business, Prudential provided LMGI with a $30,000 cash payment against a note in the amount of $30,000 that matures on December 31, 2008 and accrues interest at a rate of 5% annually. The note is repaid in annual amounts corresponding to the reduction in PruPac's gross written premium in the discontinued channels business. Vantage's obligations are guaranteed by Prudential. Additionally, the discontinued channel runoff business includes performance incentives for PruPac. The remaining note payable was $30,000 at December 31, 2004 and 2003.

In addition to the above mentioned agreement, certain risks, including, without limitation, asbestos and other environmental risks, assumed reinsurance agreements, unlimited medical benefits and certain mold claims, and various litigation arising out of or relating to conduct prior to closing have been ceded and transferred by virtue of reinsurance, indemnification guaranty arrangements with Prudential and certain of its subsidiaries.

As noted in Note 9, LMGI transferred the net assets of PruPac to LMIC on November 1, 2003. However, the results of operations of PruPac for the twelve months ended December 31, 2003 are included in the accompanying combined statutory basis statement of income.

(5) Unpaid Claims and Claim Adjustment Expenses

The Companies establish reserves for payment of claims and claims adjustment expenses that arise from the policies issued. As required by applicable accounting rules, no reserves are established until a loss, including a loss from a catastrophe, occurs. The Companies' reserves are segmented into three major categories: reserves for reported claims (estimates made by claims adjusters); incurred but not reported claims reserves ("IBNR") representing reserves for unreported claims and supplemental reserves for reported claims; and reserves for the costs to settle claims. The Companies establish reserves net of salvage and subrogation by line of business or coverage and by the year in which losses occur.

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Establishing loss reserves, including loss reserves for catastrophic events that have occurred, is an estimation process. Many factors can ultimately affect the final settlement of a claim and, therefore, the necessary reserve. Changes in the law, results of litigation, medical costs, the costs of repair materials and labor rates can all affect ultimate claim costs. In addition, time can be a critical part of reserving determinations since the longer the span between the incidence of a loss and the payment or settlement of the claim, the more variable the ultimate settlement can be. Accordingly, "short-tail" claims, such as property damage claims, tend to be easier to estimate than "long-tail" claims, such as workers compensation or general liability claims.

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' estimates of ultimate liabilities may be required. The effects of these changes are reflected in current operating results.

Catastrophes are an inherent risk of the property-casualty insurance business and have contributed to material period-to-period fluctuations in the Companies' results of operations and financial position. The level of catastrophe losses experienced in any period cannot be predicted and can be material to the results of operations and financial position of the Companies. Catastrophe losses incurred during the years ended December 31, 2004 and 2003 were $665,704 and $112,730, respectively, and are related to the four hurricanes in 2004 and other natural disasters and weather related events (California wildfires in 2003) and claims arising from the terrorist attack of September 11, 2001. The September 11, 2001 exposure arises primarily from property, workers compensation and reinsurance contracts. Although uncertainty about the final loss amount still exists, the claims are reasonably estimable and such estimate has been recorded. The cumulative pre-tax impact, net of reinsurance, of the September 11, 2001 exposure is approximately $105,132.

See Note 6 for a discussion of incurred attributable to prior years for asbestos and environmental reserves.

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(dollars in thousands)

Activity in property and casualty unpaid claims and claim adjustment expenses of the Companies, net of reinsurance recoverables on unpaid claims and claim adjustment expenses is summarized as follows:

	2004	2003
Balance as of January 1	$ 15,999,484	$ 14,823,613
Changes in company affiliations	(521,234)	711,426
Adjusted balance as of January 1	15,478,250	15,535,039
Incurred attributable to:		
Current year	7,409,493	7,540,060
Prior years:		
Discount accretion	96,000	66,000
All other	530,090	718,100
Total incurred	8,035,583	8,324,160
Paid attributable to:		
Current year	2,904,314	4,508,845
Prior years	4,495,939	3,435,080
Total paid	7,400,253	7,943,925
Net adjustment due to foreign exchange	4,814	84,210
Balance as of December 31	$ 16,118,394	$ 15,999,484

In 2004 and 2003, incurred claims and claim adjustment expenses attributable to prior years, excluding asbestos and environmental, is primarily related to rising loss development trends in commercial lines including workers compensation and general liability. Original estimates are revised as additional information becomes known regarding individual claims. A portion of the unfavorable prior year loss development relates to retrospectively rated policies. Additional premium accruals have been made that partially offset this adverse loss development.

The tabular discounting on these workers' compensation claims is based upon Unit Statistical Plan tables as approved by the respective states and generally ranges from 3.5% to 4.0% for the years ended December 31, 2004 and 2003. Unpaid claims and claim adjustment expenses at December 31, 2004 and 2003 include liabilities of $3,465,704 and $3,432,900 at discounted values of $2,168,973 and $2,125,910, respectively.

The tabular discounting on disability claims is based on the 1987 Commissioners Group Disability Table (CGDT) at annual discount rates varying 5.0% to 6.0% in 2003. Unpaid claims at December 31, 2003 include liabilities of $803,241, carried at discounted values of $575,580. During 2004, and as discussed in Note 7, LMIC commuted its reinsurance agreement with Liberty Life Assurance Company of Boston ("Liberty Life"), an indirect, unconsolidated subsidiary of LMIC, and therefore, no longer carries discounted disability reserves.

For certain commercial lines of insurance, the Companies offer experience-rated insurance contracts whereby the ultimate premium is dependent upon the claims incurred. At December 31, 2004 and 2003, the Companies held $3,626,712 and $3,353,210, respectively, of unpaid claims and claim adjustment expenses related to experience-rated contracts. Premiums receivable included accrued retrospective premiums and unbilled audit premiums of $766,829 and $796,590 at December 31, 2004 and 2003, respectively; $85,769 and $83,960, respectively, have been designated as non-admitted assets and charged to surplus.

Unpaid claims and claim adjustment expenses are recorded net of anticipated salvage and subrogation of $484,026 and $460,260 as of December 31, 2004 and 2003, respectively.

At December 31, 2004 and 2003, the Companies recorded reserve credit for large dollar deductibles on unpaid claim losses of $3,799,820 and $3,159,048, respectively. The Companies' billed and recoverable was $236,128 and $238,315 as of December 31, 2004 and 2003, respectively.

(6) **Asbestos and Environmental Reserves**

The Companies have exposure to asbestos and environmental claims that emanate principally from general liability policies written prior to the mid-1980's. In establishing asbestos and environmental reserves, the Companies estimate case basis reserves for anticipated losses and bulk reserves for loss adjustment expenses and IBNR losses. The Companies maintain casualty excess of loss reinsurance during the relevant periods. The reserves are reported net of cessions to reinsurers and include any reserves reported by ceding reinsurers on assumed reinsurance contracts.

Upon their de-affiliation from the Nationwide Group and affiliation with the Company, EICOW, WBIC, WGIC, and WUIC entered into ceded reinsurance contracts whereby Nationwide Indemnity Company assumed full responsibility for obligations on certain policies with effective dates prior to January 1, 1986, including all asbestos and environmental exposures.

The process of establishing reserves for asbestos and environmental claims is subject to greater uncertainty than the establishment of reserves for liabilities relating to other types of insurance claims. A number of factors contribute to this greater uncertainty surrounding the establishment of asbestos and environmental reserves, including, without limitation: (i) the lack of available and reliable historical claims data as an indicator of future loss development, (ii) the long waiting periods between exposure and manifestation of any bodily injury or property damage, (iii) the difficulty in identifying the source of asbestos or environmental contamination, (iv) the difficulty in properly allocating liability for asbestos or environmental damage, (v) the uncertainty as to the number and identity of insureds with potential exposure, (vi) the cost to resolve claims, and (vii) the collectibility of reinsurance.

The uncertainties associated with establishing reserves for asbestos and environmental losses and loss adjustment expenses are compounded by the differing, and at times inconsistent, court rulings on environmental and asbestos coverage issues involving: (i) the differing interpretations of various insurance policy provisions and whether asbestos and environmental losses are or were ever intended to be covered, (ii) when the loss occurred and what policies provide coverage, (iii) whether there is an insured obligation to defend, (iv) whether a compensable loss or injury has occurred, (v)

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how policy limits are determined, (vi) how policy exclusions are applied and interpreted, (vii) the impact of entities seeking bankruptcy protection as a result of asbestos-related liabilities, (viii) whether clean-up costs are covered as insured property damage, and (ix) applicable coverage defenses or determinations, if any, including the determination as to whether or not an asbestos claim is a products/completed operation claim subject to an aggregate limit and the available coverage, if any, for that claim. These uncertainties cannot be reasonably estimated, but could have a material impact on the Companies' future operating results and financial condition.

In recent years, the Companies, as well as the industry generally, have witnessed a significant increase in the number of asbestos claims being filed, due to a number of variables, including more intensive advertising by lawyers seeking asbestos claimants, and the increasing focus by plaintiffs on new and previously peripheral defendants, attempts to broaden the interpretation of compensable loss, and courts expanding the scope of the coverage.

During 2004, the Companies completed a comprehensive study of their environmental reserves. The study was performed with the assistance of an independent actuarial firm, and focused on the implications of claim and litigation trends and other significant developments. The study encompassed the liabilities with respect to both National Priority List (NPL) claims and direct site claims involving the presence of hazardous waste at sites owned or operated by the insured. As a result of the comprehensive study, the Companies increased net loss and allocated loss adjustment expense reserves by $316,000.

In 2003, the Companies completed a study of asbestos reserves with the assistance of an independent actuarial firm, focusing on the implications of claim and litigation trends and other significant developments, with special attention to major asbestos defendants and non-products claims alleging that the coverage obligations are not subject to aggregate limits. This included further categorization of policyholders, conducting an examination of recent claim activity from policyholders reporting claims for the first time, and a review of past settlements. As a result of the study, the Companies reflected a charge in 2003 relating to increased asbestos net loss reserves of $331,000 and increased its asbestos liability reinsurance recoverable allowance by $158,000. As payments are made, the allowance is reclassified to other expenses and offset to the corresponding paid loss recoverable allowance.

As a result of the significant uncertainty inherent in determining a company's asbestos and environmental liabilities and establishing related reserves, the amount of reserves required to adequately fund the Companies asbestos and environmental claims cannot be accurately estimated using conventional reserving methodologies based on historical data and trends. As a result, the use of conventional reserving methodologies frequently has to be supplemented by subjective considerations including managerial judgment.

Unpaid claims and claim adjustment expenses for asbestos and environmental related claims net of reinsurance were $1,467,323 and $1,371,756 at December 31, 2004 and 2003, respectively.

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The following table summarizes reserve and loss activity for the Companies' asbestos and environmental loss and loss adjustment expenses for the years ended December 31, 2004 and 2003.

	2004	2003		2004	2003
Asbestos Gross:			**Environmental Gross:**		
Beginning reserves	$ 2,016,279	$ 1,666,303	Beginning reserves	$ 393,408	$ 564,845
Acquisitions	-	175,312	Acquisitions	-	15,312
Incurred losses and LAE	674,114	542,251	Incurred losses and LAE	480,461	(111,199)
Calendar year payments	323,174	367,587	Calendar year payments	77,638	75,550
Ending reserves	$ 2,367,219	$ 2,016,279	Ending reserves	$ 796,231	$ 393,408
Asbestos Net:			**Environmental Net:**		
Beginning reserves	$ 1,102,102	$ 960,014	Beginning reserves	$ 269,654	$ 306,459
Acquisitions	-	117,517	Acquisitions	-	11,917
Incurred losses and LAE	3,532	173,000	Incurred losses and LAE	315,986	(8,000)
Calendar year payments	176,795	148,429	Calendar year payments	47,156	40,722
Ending reserves	$ 928,839	$ 1,102,102	Ending reserves	$ 538,484	$ 269,654

The large increase in gross asbestos incurred for 2004 is primarily attributable to claims against 1985 and prior policies issued by EICOW and its affiliates, which are 100% ceded to Nationwide Indemnity Company and guaranteed by Nationwide Mutual Insurance Company. As discussed in Note 4, LMGI's acquisition of PruPac in 2003 included $175,312 and $117,517 of gross and net asbestos reserves, respectively. Any increase in PruPac related asbestos reserves is reinsured by Vantage and guaranteed by Prudential.

(7) 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 serves as a servicing carrier for residual market organizations.

The effects of reinsurance on premiums written and earned for the years ended December 31, 2004 and 2003 were as follows:

	2004		2003	
	Written Premium	Earned Premium	Written Premium	Earned Premium
Direct	$ 12,838,478	$ 12,398,524	$ 12,375,944	$ 12,012,208
Assumed	781,380	825,484	1,182,962	1,243,075
Ceded	(3,595,228)	(3,522,967)	(3,666,405)	(3,425,361)
Net premiums	$ 10,024,630	$ 9,701,041	$ 9,892,501	$ 9,829,922

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

The Companies have an aggregate reinsurance recoverable from Nationwide Indemnity Company in the amount of approximately $1,837,744 and $1,033,581 as of December 31, 2004 and 2003, respectively. The reinsurance recoverable is guaranteed by Nationwide Mutual Insurance Company. Additionally, the Companies have significant reinsurance recoverable concentrations with Swiss Reinsurance Group, Berkshire Hathaway Group and Chubb Group totaling approximately $1,222,562, $652,728, and $310,636, respectively, as of December 31, 2004, net of offsetting collateral under the contracts.

Recoverables from state mandated involuntary market pools and associations primarily represent servicing carrier business. As a servicing carrier, the Companies retain no direct underwriting risk but instead cede 100% of the involuntary premium and losses back to the pool. Payment of losses is shared among the pool participants in proportion to their pool participation. Credit risk with respect to any given pool or association is a composite of the cumulative credit of all participants.

LMIC entered into a reinsurance agreement effective January 1, 1998 with Liberty Life, an indirect, unconsolidated subsidiary of LMIC, whereby Liberty Life ceded 100% of long and short-term disability business on a funds withheld basis. LMIC assumed premiums earned of $232,156 in 2003 and loss and loss adjustment expense reserves of $706,013 as of December 31, 2003. The assumption resulted in a statutory net gain of $23,570 in 2003. During 2004, LMIC commuted the agreement with Liberty Life and resulted in a decrease of loss and loss adjustment expenses and premiums earned of $731,514 and a statutory net gain of $57,235.

LMIC entered into a reinsurance agreement effective January 1, 2003 with St. James Insurance Company ("St James"), an unconsolidated affiliate of LMIC, whereby LMIC retroceded the Liberty Life long and short-term disability business on a funds withheld basis. LMIC ceded premiums earned and loss and loss adjustment expenses of $203,580 for the year ended December 31, 2003. With the commutation of the Liberty Life reinsurance, LMIC also commuted the St. James retrocession agreement during 2004. For the year ended December 31, 2004, the commutation resulted in an increase of losses and loss adjustment expenses of $332,323 and a statutory net loss of $23,336.

Effective April 1, 2003, LMIC entered into a quota share reinsurance agreement with Liberty RE Bermuda, an indirect, unconsolidated subsidiary of LMIC, whereby LMIC cedes Homeowners, Auto, Other Liability and Products Liability on a funds withheld basis. The Companies ceded premiums earned of $517,688 and $296,669 for the years ended December 31, 2004 and 2003, respectively. Loss and loss adjustment expense reserves ceded as of December 31, 2004 and 2003 were $400,913 and $247,450, respectively. The cession resulted in statutory net (losses) gains of $(12,177) and $29,771 for the years ended December 31, 2004 and 2003, respectively.

In 2002 and prior, the Companies entered into retroactive reinsurance agreements with unaffiliated entities where a significant portion of the consideration is retained on a "funds held" basis and interest is credited on the balance with a weighted average rate of approximately 7.7% annually.

The Companies transferred unpaid claim and claim adjustment expenses of $53,422 and $(39,474) and recorded other income (expense) of $23,628 and $(49,021) in 2004 and 2003, respectively. Interest credited to the funds held balances for the years ended December 31, 2004 and 2003 was $102,943 and $88,390, respectively.

(8) Debt

The Companies maintain a $600,000 revolving line of credit with LMGI. Outstanding borrowings as of December 31, 2004 and 2003 totaled $3,109 and $13,811, respectively. Interest is paid quarterly in arrears based on average borrowings at a variable interest rate. Interest expense incurred related to this agreement was $1,481 and $7,501 in 2004 and 2003, respectively. Interest paid related to this agreement was $1,692 and $7,952 in 2004 and 2003, respectively.

The Companies have a demand note payable to its wholly owned subsidiary, Liberty Re (Bermuda) Limited, in the amount of $24,541 as of December 31, 2004 and 2003. Interest is payable semi-annually on the first day of April and October, computed at LIBOR plus 0.15%.

In July 2003, the Companies settled a pound sterling denominated demand note to its indirectly owned subsidiary, Liberty Europe Holdings, Inc. totaling $240,168 (U.S. dollar equivalent). Interest expense incurred related to this agreement was $4,779 in 2003 (U.S. dollar equivalent). Interest paid related to this agreement was $5,621 in 2003 (U.S. dollar equivalent).

(9) Capital and Surplus

As of December 31, 2004 and 2003, LMIC and Liberty Fire each had 100,000 shares ($100 par value) authorized, issued and outstanding and EICOW had 5,000,000 shares ($1 par value) authorized, issued, and outstanding. As of December 31, 2004, the Companies have restricted surplus of $1,139,370 resulting from retroactive reinsurance contracts.

During 2004, the Companies received capital contributions from LMGI in the amount of $768,837. On November 1, 2003, the Companies received a capital contribution from LMGI in the amount of $589,000 and is included as other changes in surplus. The 2003 capital contribution was related to the acquisition of PruPac and net assets transferred equaled $559,000.

During 2003, the Companies transferred their unfunded deferred compensation plan to LMGI. Following the transfer, the Companies received a capital contribution in the amount of $170,184 from LMGI. The Companies are allocated a proportional share of the expense associated with this plan through the service agreement between the Companies. The total expense allocated to the Companies under this agreement during 2004 and 2003 was $0 and $170,184, respectively.

During 2003, the Companies transferred the plan sponsorship of certain benefit plans to LMGI. Following the transfer, the Companies received a capital contribution in the amount $279,627 from LMGI. Additionally, the Companies provide certain other postretirement benefits to inactive participants through plans sponsored by LMGI. The Companies have no legal obligation for benefits under these plans subsequent to September 24, 2003. However, the Companies maintain a contingent liability for the Supplemental Income Retirement Plan (SIRP) for inactive participants that did not sign a release of the Companies with respect to the inactive participants benefit payments. The amount of the contingent liability accrued was $11,456 and $34,396 as of December

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31, 2004 and 2003, respectively, for the SIRP inactive defined benefits participants. Pursuant to a written agreement, the Companies have agreed to reimburse LMGI for (a) the required contributions to the pension plans and (b) with respect to other plans, the benefits incurred in the Companies' behalf.

In addition to the capital contributions discussed above, during 2003 the Companies received capital contributions in the amount of $26,628 from LMGI.

Property and casualty insurance companies are subject to certain Risk-Based Capital ("RBC") requirements as specified by the NAIC. Under those requirements, the amount of capital and surplus maintained by a property and casualty insurance company is to be determined based on the various risk factors related to it. At December 31, 2004, the Companies exceed the RBC requirements.

(10) Surplus Notes

Surplus notes represent subordinated debt instruments classified as a component of surplus for statutory accounting purposes. At December 31, 2004 and 2003, the Companies had the following surplus notes outstanding:

Interest Rate, Amount of Note, Date of Maturity	2004	2003
8.200%, $121,361 Notes due May 4, 2007	$ 121,212	$ 249,816
8.500%, $150,000 Notes due May 15, 2025	149,790	149,780
7.875%, $250,000 Notes due October 15, 2026	249,696	249,681
7.697%, $500,000 Notes due October 15, 2097	492,153	492,069
	$ 1,012,851	$ 1,141,346

Payments for interest on and principal of the notes are expressly subordinate to all policyholder claims and other obligations of the Companies. Accordingly, interest and principal payments are contingent upon prior approval of the Commissioner of Insurance of the State of Massachusetts. Interest paid was $85,504 and $91,423 for the years ended December 31, 2004 and 2003. On April 12, 2004, LMIC retired approximately $128,639 of its $250,000 note, due May 4, 2007 and realized a loss of approximately $18,773.

(11) Federal and Foreign Income Taxes

LMHC files a consolidated Federal income tax return with their respective eligible subsidiaries and affiliated companies. Pursuant to intercompany Federal income tax allocation agreements that each of these companies have with their respective subsidiaries, the consolidated tax liabilities are allocated to each company based on its separate tax liability. Tax benefits are allocated to each company for its portion of net operating losses and carryforwards in the year they are used by the respective consolidated groups. Companies have the enforceable right to recoup prior payments in the event of future losses. Intercompany tax balances are settled quarterly. A provision is made, where applicable, for taxes on foreign operations.

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As of December 31, 2004 and 2003, the components of the net deferred tax assets and liabilities are as follows:

	2004	2003
Gross deferred tax assets	$ 1,793,625	$ 1,916,316
Gross deferred tax liabilities	(411,197)	(435,211)
Net deferred tax asset	1,382,428	1,481,105
Net deferred tax asset non-admitted	(660,062)	(846,019)
Net admitted deferred tax asset	$ 722,366	$ 635,086

The (benefit) provision for incurred taxes on earnings for the years ended December 31 are:

	2004	2003
Federal	$ 154,527	$ 128,407
Net operating loss (benefit)	(238,919)	(253,717)
Foreign	28,568	30,684
Federal and foreign income tax incurred	$ (55,824)	$ (94,626)

The Companies' deferred tax assets and liabilities result primarily from discounting of unpaid loss and LAE reserves, limits on unearned premium reserve deductions, deferred compensation deductions, reversal of discount accretion on bonds, investment impairments, fixed asset depreciation differences, unrealized gains, statutory non-admitted assets, net operating loss carryforwards, and tax credit carryforwards.

Effective tax rates differ from the current statutory rate of 35% principally due to the effects of tax-exempt interest, excludible dividend income, foreign operations, revisions to prior year estimates, and changes in deferred taxes related to non-admitted assets.

The amount of alternative minimum taxes incurred and available for recoupment in the event of future losses is $19,200 from the current year and $19,616 from the preceding year.

As of December 31, 2004, the Companies have a net loss carryforward of $147,295 originating in 1996 and expiring in various years through 2021.

The Companies also have an alternative minimum tax credit of $203,056 that does not expire.

The Companies have a foreign tax credit of $48,740 that was generated in 2003 and expires in 2013.

The Companies have not provided for deferred taxes on unremitted earnings of subsidiaries outside the United States where such earnings are permanently invested. At December 31, 2004, unremitted earnings of foreign subsidiaries were $463,000. If these earnings were distributed in the form of dividends or otherwise, the Companies would be subject to U.S. income taxes less an adjustment for applicable foreign tax credits.

During 2004, the American Jobs Creation Act of 2004 ("The Act") was signed into law. The Act introduced a special one-time 85% dividends received deduction on the repatriation of certain foreign earnings to a United States taxpayer, provided certain criteria are met. The maximum amount of foreign earnings eligible for the deduction is limited to the greater of $500,000 or the amount shown in the Companies' most recent audited financial statements filed prior to June 30, 2003 as earnings permanently reinvested outside of the United States. As of December 31, 2004, management had not yet decided on whether, and to what extent, there might be a repatriation of foreign earnings under The Act and, accordingly, the financial statements do not reflect any provision for taxes on unremitted earnings. Since that time, however, management completed its analysis of the impact of The Act on the Companies' plans for repatriation and received Board approval of the Domestic Reinvestment Plan. Based on this analysis, the Companies plan to repatriate $196,000 in extraordinary dividends, as defined in The Act, during 2005 and, accordingly, will record a tax liability of $22,000 during the quarter ending June 30, 2005. In addition, it is reasonably possible that the Companies will repatriate some additional amount between $0 and $85,000 beyond the $196,000 previously mentioned, with the respective tax liability ranging from $0 to $4,000. The Companies expect to be in a position to finalize its assessment of any additional repatriation amount during the quarter ending September 30, 2005.

During 2004, the Companies reached a settlement with the Internal Revenue Service ("IRS") relating to its federal income tax liability for the 1994 through 1996 tax years. Results for the year ended December 31, 2004 increased $18,000 due to settlements of these prior year tax issues.

The IRS has completed its review of the Companies' federal income tax returns through the 1998 tax year and is currently reviewing income tax returns for the 1999 through 2001 tax years. Any adjustments that may result from the IRS examinations of these income tax returns are not expected to have a material impact on the financial position, liquidity or results of operations of the Companies.

(12) Benefit Plans

(a) Pension Plans and Postretirement Benefits

As discussed in Note 9, certain pension and postretirement obligations and assets were transferred to LMGI during 2003 and are not included in the Companies' summary of assets and obligations as of December 31, 2004 and 2003. The Companies continue to sponsor non-contributory defined pension benefit plans covering substantially all Canadian and certain U.S. employees. The benefits and eligibility are based on age, years of service and the employee's compensation, as more fully described in the Plan. The Companies accrued the benefit obligation in accordance with actuarially determined amounts with an offset to pension accrual costs for the intangible asset amortization.

The Companies' U.S. Postretirement health and life benefit obligations and assets were also transferred to LMGI in September of 2003. Accordingly, the Plan assets and obligations are no longer included in the Companies' summary of assets and obligations as of December 31, 2004 and 2003. However, the Companies continue to provide certain health care and life insurance benefits for retired Canadian 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, and as more fully defined in the Plan.

The Companies' U.S. employees participate in non-contributory defined benefit pension plans sponsored by LMGI. In addition, the Companies provide certain other postretirement benefits to

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inactive employees through plans sponsored by LMGI. The Companies have no legal obligation for benefits under these plans subsequent to September 24, 2003. LMGI allocates pension amounts to the Companies based on paid amounts. LMGI allocates postretirement amounts to the Companies based on Statutory incurred amounts. LMGI allocated $224,427 and $16,357 of pension expense and $45,045 and $10,372 of postretirement expense to the Companies in 2004 and 2003, respectively.

A summary of assets, obligations, and assumptions of the pension and postretirement benefits are as follows at December 31, 2004 and 2003:

	Pension		Postretirement	
	2004	2003	2004	2003
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 86,456	$ 2,136,384	$ 2,083	$ 313,389
Eligibility costs	2,880	76,538	97	9,733
Interest costs	6,014	107,398	131	15,611
Amendments	201	-	-	-
Actuarial gains or losses	19,021	340,543	99	19,788
Currency exchange rate change	2,794	8,153	160	816
Acquisition/(divestiture)	(5,395)	-	(552)	-
Transfer to LMGI	-	(2,510,183)	-	(337,621)
Benefits paid	(5,141)	(72,377)	(120)	(19,633)
Benefit obligation at end of year	$ 106,830	$ 86,456	$ 1,898	$ 2,083
Change in plan assets:				
Fair value of plan assets at beginning of the year	$ 27,604	$ 1,831,380	$ -	$ 20,496
Actual return on plan assets	4,344	209,173	-	1,487
Other	1,803	8,517	-	-
Employer contribution	1,574	-	120	18,288
Transfer to LMGI	-	(1,944,020)	-	(20,612)
Benefits paid	(2,985)	(71,758)	(120)	(19,659)
Administrative expense	-	(5,688)	-	-
Fair value of plan assets at end of the year	$ 32,340	$ 27,604	$ -	$ -
Reconciliation of prepaid (accrued):				
Funded status of the plan	$ (74,491)	$ (58,852)	$ (1,898)	$ (2,083)
Unrecognized net gain (loss)	34,505	29,063	(310)	(463)
Unamortized prior service cost	759	519	-	-
Unrecognized net transition obligation (asset)	2,781	3,683	1,113	1,467
Net amount recognized	$ (36,446)	$ (25,587)	$ (1,095)	$ (1,079)
Non-Vested Benefits	$ -	$ -	$ 563	$ 3,277

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	Pension 2004	Pension 2003	Postretirement 2004	Postretirement 2003
Components of net periodic benefit cost:				
Eligibility costs	$ 2,880	$ 76,538	$ 97	$ 9,733
Interest costs	6,014	107,398	131	15,611
Expected return on plan assets	(2,936)	(113,497)	-	(1,230)
Amortization of unrecognized:				
Net loss (gain)	1,480	44,989	(20)	447
Prior service cost	18	3,719	-	(1,405)
Net transition (asset) obligation	134	(113,700)	102	8,453
Total net periodic benefit cost	$ 7,590	$ 5,447	$ 310	$ 31,609
Curtailment loss	1,897	179	(258)	-
Total net periodic benefit costs	$ 9,487	$ 5,626	$ 52	$ 31,609
Amounts recognized in the statutory financial statements consist of:				
Prepaid benefit costs	$ 1,995	$ -	$ -	$ -
Accrued benefit liability	(54,236)	(33,227)	(1,095)	(1,079)
Minimum pension liability	5,991	-	-	-
Intangible asset	9,804	7,640	-	-
Net amount recognized	$ (36,446)	$ (25,587)	$ (1,095)	$ (1,079)
Weighted-average assumptions				
Discount rate	6.50%	7.00%	6.50%	7.00%
Expected return on plan assets	8.50%	8.50%	7.15%	7.15%
Rate of compensation increase	5.10%	5.10%	-	-

The discount rates used in determining the year-end pension and post-retirement obligations was 6.25% in 2004 and 6.50% in 2003.

The average health care cost trend rates assumed for 2005 is 11.7% graded down to 5.4% in 2012. Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-percentage point increase	1-percentage point decrease
Effect on accumulated postretirement benefit obligation	$ 164	$ (141)
Effect on total of eligibility cost and interest cost components	15	(13)

(b) Thrift-Incentive Plan

The Companies continue to sponsor various defined contribution savings plans for Canadian and certain United States employees who meet certain eligibility requirements. During 2004 and 2003, employees could contribute a percentage of their annual compensation on a before and after-tax basis, subject to Federal limitations. The Companies' contribution to the defined contribution plans is based on the employee contribution amount and profitability of the Companies. In 2004 and 2003, the Companies made matching contributions of $1,305 and $45,971, respectively.

(c) Other Compensation Plans

The Companies provide various performance based incentive compensation plans to employees meeting the participation requirements of the respective plans. Performance compensation is determined in accordance with plan formulas. For the years ended December 31, 2004 and 2003, compensation expense related to the Companies' performance incentive plans was $360,955 and $376,449, respectively.

(13) Dividend Restrictions

The insurance subsidiaries' ability to pay dividends is restricted under applicable insurance law and regulations. Under the insurance laws of the domiciliary states of the insurance subsidiaries, an insurer may make an ordinary dividend payment if its surplus as regards to policyholders, following such dividend, is reasonable in relation to its outstanding liabilities and adequate to its financial needs. However, no insurer may pay an extraordinary dividend without the approval or non-disapproval of the domiciliary insurance regulatory authority. Under the insurance laws of Massachusetts, the domiciliary state of LMIC and LMFIC, an extraordinary dividend is defined as a dividend whose fair market value, together with other dividends made within the preceding 12 months, exceeds the greater of 10% of the insurer's surplus as regards policyholders as of the preceding December 31, or the insurer's net income for the 12-month period ending on the preceding December 31. Under the insurance laws of Wisconsin, the domiciliary state of EICOW, an extraordinary dividend is defined as a dividend whose fair market value, together with other dividends paid within the preceding 12 months, exceeds the lesser of (a) 10% of the insurer's surplus as regards policyholders as of the preceding December 31, or (b) the greater of (1) the insurer's net income for the preceding calendar year, minus realized capital gains for that calendar year, or (2) the aggregate of the insurer's net income for the three preceding calendar years minus realized capital gains for those calendar years and minus dividends paid within the first two of the preceding three calendar years. Changes in the extraordinary dividend regulation of the domiciliary states of LMIC, LMFIC and EICOW could negatively affect LMGI's ability to pay principal and interest on LMGI's external debt, as could a redomestication, merger or consolidation of LMIC, LMFIC or EICOW to a different domiciliary state. Additionally, in connection with the LMHC's reorganization in 2001 into a mutual holding company structure, the LMHC entered into Keep Well Agreements with the Massachusetts Commissioner of Insurance, LMIC, LMFIC and certain other affiliates which effectively limit LMIC and LMFIC from paying any dividends to LMGI when the "total adjusted capital" of the respective insurer is below 300% of the "authorized control level," as such terms are defined in the Massachusetts risk-based capital regulations as of June 13, 2001. The Keep Well Agreements will terminate automatically upon the earlier of (i) the date that is five years from the effective date of the respective reorganization (November 28, 2006 as to LMIC and March 19, 2007 as to LMFIC), or (ii) the date upon which LMHC, the respective insurer or LMHC Massachusetts Holdings Inc. becomes subject to the public reporting requirements of the Securities and Exchange Commission. The maximum dividend payout in 2005 that may be made prior to regulatory approval is $876,907.

(dollars in thousands)

(14) Commitments and Contingent Liabilities

At December 31, 2004 and 2003, the Companies had $559,635 and $697,439, respectively, in assigned structured settlement annuities in connection with the Prudential transaction. The asset and annuity liability of the same amount are correspondingly classified as other assets and other liabilities in the consolidated balance sheet.

The Companies accrued a liability for guaranty funds and other assessments of $248,422 and $270,173 as of December 31, 2004 and 2003, respectively. Liabilities for guaranty funds and other insurance-related assessments are not discounted. As of December 31, 2004 and 2003, a receivable for future premium tax credits related to these assessments was $56,281 and $45,984, respectively. This represents management's best estimate of the guaranty fund and other assessment liability. The related asset is limited to the amount that is determined based on future premium collections or policy surcharges from policies in force. Current assessments are expected to be paid out over the next five years; while premium tax offsets are expected to be realized within one year.

The Companies have reinsurance funds held balances of approximately $1,629,797 that are subject to ratings triggers whereby if any of the Companies' insurance financial strength ratings (with the three major rating agencies) fall below the A- (or equivalent) categories, the funds may be required to be placed in trust and invested in assets acceptable to the Companies. Additionally, the Companies have a letter of credit in the amount of 152,000 British pounds (approximately $293,000) that can be terminated in the event that the Companies' insurance financial strength rating with S&P or Moody's falls below the BBB+ or Baa1, respectively, category. The Companies have no additional material ratings triggers.

At December 31, 2004, the Companies had commitments to purchase various mortgage-backed securities settling in 2005, at a cost of $251,911 with a fair market value of $253,316 and are included as fixed maturities in the combined statutory basis balance sheets. Additionally, at December 31, 2004, the Companies had unfunded capital commitments to private equity investments of $582,558.

The Companies lease certain office facilities and equipment from others under operating leases expiring in various years through 2101. Rental expense amounted to $148,738 and $135,490 for the years ended December 31, 2004 and 2003, respectively. It is expected that as leases expire they will be replaced. Future minimum rental payments under non-cancelable leases with terms in excess of one year are estimated to be:

Year	Operating Arrangements
2005	$ 106,776
2006	86,886
2007	62,285
2008	41,088
2009	27,386
2010 and thereafter	169,204
Total	$ 493,625

(dollars in thousands)

The Companies have entered into sale-leaseback arrangements with unrelated parties on certain property, plant and equipment ("PP&E"). Equipment agreements are under thirteen-month lease periods with monthly renewal options to a maximum of sixty months. The Companies have a purchase option for all PP&E at the end of each respective lease. The Companies sold non-admitted assets with book values of $33,553 and $19,770 in 2004 and 2003, respectively. The Companies received cash in the amounts of $36,963 and $21,934 in 2004 and 2003, respectively. The transactions resulted in deferred gains of $3,410 and $2,164. The following is a schedule of the Companies' minimum lease obligations:

Year	Sale Lease-back
2005	$ 43,941
2006	42,831
2007	24,113
2008	22,081
2009	17,411
2010 and thereafter	108,504
Total	$ 258,881

The Companies guarantee $88,000 of medium term notes payable issued by LMGI. The Companies guarantee the performance of LMGI under a $600,000 commercial paper program. The amount outstanding as of December 31, 2004 was $147,100.

The Companies guarantee the performance of the obligations of LMGI under a $450,000 revolving credit agreement, with several lenders led by Bank of America (formerly known as Fleet National Bank). The revolving line of credit serves as a back-up facility for the commercial paper program. At December 31, 2004, the Companies did not utilize their revolving line of credit.

The Companies guarantee the performance of Inversora Segucar, C.A., an affiliate of the Companies, under a $25,000 liquidity facility program. The amount outstanding as of December 31, 2004 was $22,062.

The Companies collateralize the performance of Liberty Corporate Capital Limited's obligations under a $771,076 standby letter of credit. As of December 31, 2004, there have been no drawings under the standby letter of credit.

The Companies guarantee obligations of Liberty Life and Liberty Mutual Insurance Europe Ltd. (formerly known as Liberty Mutual Insurance Company (U.K.) Ltd.) on policies and contracts issued.

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 results of operations or the financial position of the Companies.

The Companies have been in various insurance coverage disputes with Armstrong World Industries ("Armstrong") for over twenty years relating to asbestos liabilities and insurance covering the period

1973 to 1981. The Companies have prevailed in a favorable arbitration ruling before an appellate panel regarding Armstrong's insurance coverage. Armstrong filed a Chapter 11 Bankruptcy petition in the United States Bankruptcy Court for the District of Delaware in December 2000 and is still operating under the protection of Chapter 11. A declaratory judgment action, filed by Armstrong in 2002, is pending in the United States District Court for the Eastern District of Pennsylvania seeking coverage for asbestos claims under insurance policies issued to Armstrong during the period of 1973 to 1981, including, but not limited to, damages and a declaration regarding the availability, applicability and scope of alleged non-product coverage not subject to the aggregate limits of the policies. Armstrong contends that a significant portion of its asbestos liability arises from operations that would entitle Armstrong to insurance coverage under the disputed policies without regard to the aggregate limit of liability. The Pennsylvania action is currently in the initial pleading stages and inactive by agreement of the parties. Armstrong has also recently filed, in the same Pennsylvania District Court, a Motion to Vacate the appellate arbitration award that was favorable to the Companies. The Companies intend to vigorously defend its position. Management believes that the ultimate liability, if any, to Armstrong will not be resolved for at least one year and very likely may not be known for several years. In the opinion of management, the outcome of these pending matters is difficult to predict and in the event of an adverse outcome, could have a material adverse effect on the Companies' results of operations, financial condition and liquidity.

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Board of Directors
Liberty Mutual Holding Company Inc.

We have audited, in accordance with auditing standards generally accepted in the United States, the combined statutory-basis financial statements of the Liberty Mutual Insurance Company Pool (the "Companies") as of December 31, 2004 and 2003 and for the years then ended, and have issued our report thereon dated May 18, 2005. In connection with that report, we advise you as follows:

We are independent certified public accountants with respect to the Companies and conform to the standards of the accounting profession as contained in the Code of Professional Conduct and pronouncements of the American Institute of Certified Public Accountants, and the Rules of Professional Conduct of the Massachusetts Board of Public Accountancy.

The two engagement partners and two engagement senior managers, who are all certified public accountants, have a total of 56 years and 22 years of experience, respectively, in public accounting and are experienced in auditing insurance enterprises. Members of the engagement team, most of whom have had experience in auditing insurance enterprises and 44 percent of whom are certified public accountants, were assigned to perform tasks commensurate with their training and experience.

We understand that the Companies intend to file their audited combined statutory-basis financial statements and our report thereon with the insurance departments of the states in which the Companies are domiciled and other state insurance departments in states in which the Companies are licensed and that the insurance commissioners of those states will be relying on that information in monitoring and regulating the combined statutory-basis financial condition of the Companies.

While we understand that an objective of issuing a report on the combined statutory-basis financial statements is to satisfy regulatory requirements, our audit was not planned to satisfy all objectives or responsibilities of insurance regulators. In this context, the Companies and insurance department personnel should understand that the objectives of an audit of combined statutory-basis financial statements in accordance with auditing standards generally accepted in the United States is to form an opinion and issue a report on whether the combined statutory-basis financial statements present fairly in all material respects, the admitted assets, liabilities, and capital and surplus, results of operations, and cash flow in conformity with accounting practices prescribed or permitted by the insurance departments of the states in which the Companies are domiciled. Consequently, under auditing standards generally accepted in the United States, we have the responsibility, within the inherent limitations of the audit process, to plan and perform our audit to obtain reasonable assurance about whether the combined statutory-basis financial statements are free of material misstatement, whether caused by error or fraud, and to exercise due professional care in the conduct of the audit. The concept of selective testing of the data being audited, which involves judgment both as to the number of transactions to be audited and the areas to be tested, has been generally accepted as a valid and sufficient basis for an auditor to express an opinion on financial statements. Audit procedures that are effective for detecting errors, if they exist, may be ineffective for detecting misstatements resulting from fraud. Because of the characteristics of fraud, particularly those involving concealment and falsified documentation (including forgery), a properly planned and performed audit may not detect a material misstatement resulting from fraud. In addition, an audit does not address the possibility that material errors or misstatements caused by fraud may occur in the future. Also, our use of professional judgment and the assessment of materiality for the purpose of our audit means that matters may exist that would have been assessed differently by insurance commissioners.

It is the responsibility of the management of the Companies to adopt sound accounting policies, to maintain an adequate and effective system of accounts, and to establish and maintain internal control that will, among other things, provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting practices prescribed or permitted by the insurance departments of the states in which the Companies are domiciled.

The personnel in the insurance departments of the states in which the Companies are domiciled and other state insurance commissioners should exercise due diligence to obtain whatever other information that may be necessary for the purpose of monitoring and regulating the combined statutory-basis financial position of insurers and should not rely solely upon our report.

We will retain the workpapers prepared in the conduct of our audit until the various insurance departments of the states in which the Companies are domiciled have filed a Report of Examination covering 2004, but no longer than seven years. After notification to the Companies, we will make the workpapers available for review by the insurance departments of the states in which the Companies are domiciled at the offices of the insurer, at our offices, at the Insurance Department, or at any other reasonable place designated by the Insurance Commissioner. Furthermore, in the conduct of the aforementioned periodic review by the insurance departments of the states in which the Companies are domiciled, photocopies (or printouts of electronic files) of pertinent audit workpapers may be made (under our control) and such copies may be retained by the insurance departments of the states in which the Companies are domiciled.

The engagement partner has served in that capacity with respect to the Companies since 2002, is licensed by the Massachusetts Board of Public Accountancy, and is a member in good standing of the American Institute of Certified Public Accountants.

To the best of our knowledge and belief, we are in compliance with the requirements of section 7 of the NAIC's *Model Rule (Regulation) Requiring Annual Audited Financial Reports* regarding qualifications of independent certified public accountants.

This letter is intended solely for the information and use of the insurance departments of the states in which the Companies are domiciled and other state insurance departments and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

May 18, 2005

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III

AUDITED COMBINED STATUTORY-BASIS FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

Liberty Mutual Insurance Company Pool
Years ended December 31, 2005 and 2004

Report of Independent Auditors

The Board of Directors
Liberty Mutual Holding Company Inc.

We have audited the accompanying combined statutory-basis balance sheets of the Liberty Mutual Insurance Company Pool (the Companies) as of December 31, 2005 and 2004, and the related combined statutory-basis 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. We were not engaged to perform an audit of the Companies' internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Companies' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and 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. The effects on the financial statements of these variances are not reasonably determinable but are presumed to be material.

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 the Companies at December 31, 2005 and 2004, or the results of their operations or their cash flows for the years then ended.

However, in our opinion, the combined statutory-basis financial statements referred to above present fairly, in all material respects, the combined statutory-basis financial position of the Liberty Mutual Insurance Companies at December 31, 2005 and 2004, and the combined statutory-basis 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(c) to the combined statutory-basis financial statements, the Companies adopted Statement of Statutory Accounting Principles No. 88, *Investment in Subsidiary, Controlled and Affiliated Entities, a Replacement of SSAP No. 46.*

May 12, 2006

Liberty Mutual Insurance Company Pool

Combined Statutory-Basis Balance Sheets

December 31, 2005 and 2004

(dollars in thousands)

Admitted Assets	2005	2004
Investments:		
Fixed maturities	$ 21,249,921	$ 19,854,319
Common and preferred stocks	1,490,704	1,647,018
Investments in affiliates	4,088,772	3,641,778
Cash and short-term investments	1,399,710	1,051,693
Companies-occupied properties	333,217	265,616
Other invested assets	963,205	872,075
Total cash and invested assets	29,525,529	27,332,499
Premiums receivable, net	3,723,297	3,612,717
Deferred tax asset, net	833,717	722,366
Federal income taxes receivable	66,289	40,598
Reinsurance recoverable on paid losses, net	497,837	451,534
Receivable from affiliates	166,406	-
Funds held by affiliates and other reinsurers	25,169	24,061
Other admitted assets	977,269	917,596
Total admitted assets	$ 35,815,513	$ 33,101,371

Liabilities and Surplus	2005	2004
Liabilities:		
Unpaid claims	$ 14,372,439	$ 13,557,044
Unpaid claim adjustment expenses	2,928,202	2,561,350
Unearned premiums	4,199,301	4,033,919
Other liabilities and accrued expenses	1,155,481	825,380
Funds held under reinsurance contracts	2,225,351	2,236,243
Ceded reinsurance premiums payable	724,615	587,636
Taxes, licenses and fees accrued	378,531	366,025
Payable to affiliates	-	231,842
Policyholder dividends accrued	3,491	6,076
Total liabilities	25,987,411	24,405,515
Surplus:		
Surplus notes	1,012,986	1,012,851
Special and other surplus funds	1,177,271	1,141,870
Contributed capital	2,809,797	2,224,072
Unassigned surplus	4,828,048	4,317,063
Total surplus	9,828,102	8,695,856
Total liabilities and surplus	$ 35,815,513	$ 33,101,371

See accompanying notes to the combined statutory-basis financial statements.

Liberty Mutual Insurance Company Pool

Combined Statutory-Basis Statements of Income

Years ended December 31, 2005 and 2004

(dollars in thousands)

	2005	**2004**
Premiums earned	$ 10,359,632	$ 9,701,041
Claims	6,612,338	6,452,040
Claim adjustment expenses	1,952,693	1,583,543
Underwriting and other expenses	2,071,309	1,976,996
Premium and other taxes and assessments	511,286	438,474
Total underwriting expenses	11,147,626	10,451,053
Underwriting loss before dividends	(787,994)	(750,012)
Policyholder dividends	36,108	39,433
Underwriting loss	(824,102)	(789,445)
Net investment income	1,341,305	1,059,200
Realized investment gains, net	379,195	330,554
Other loss, net	(117,239)	(183,491)
Income before income taxes	779,159	416,818
Federal and foreign income taxes	48,276	(55,824)
Net income	$ 730,883	$ 472,642

See accompanying notes to the combined statutory-basis financial statements.

Liberty Mutual Insurance Company Pool

Combined Statements of Changes in Statutory Surplus

Years ended December 31, 2005 and 2004

(dollars in thousands)

	2005	2004
Statutory surplus, beginning of year	$ 8,695,856	$7,215,898
Add (deduct):		
Net income	730,883	472,642
Change in net unrealized capital gains (losses):		
From unconsolidated subsidiaries	(309,775)	171,201
From non-affiliated securities	12,346	123,291
Contributed capital	585,725	768,837
Change in non-admitted assets	(48,967)	(42,945)
Change in net admitted deferred tax asset	111,351	87,280
Dividends paid	(100,000)	-
Surplus note retirement	-	(128,639)
Change in accounting principle	156,763	-
Other surplus changes, net	(6,080)	28,291
Statutory surplus, end of year	$ 9,828,102	$8,695,856

See accompanying notes to the combined statutory-basis financial statements.

Liberty Mutual Insurance Company Pool

Combined Statutory-Basis Statements of Cash Flow

Years ended December 31, 2005 and 2004

(dollars in thousands)

	2005	2004
Cash provided:		
From operations:		
Premiums collected	$10,567,636	$ 9,659,336
Investment income and other income, net	1,621,988	1,827,636
Claim and claim adjustment expenses	(7,324,161)	(7,479,334)
Underwriting and other expenses, net	(2,666,946)	(2,360,046)
Net cash provided by operations	2,198,517	1,647,592
From investments sold or matured:		
Fixed maturities	9,656,062	12,642,990
Common and preferred stocks	1,333,524	1,798,371
Investments in affiliates	190,949	15,803
Other investments	334,971	272,555
Cash provided by investments	11,515,506	14,729,719
Capital and paid in surplus	585,725	768,837
Total cash provided	14,299,748	17,146,148
Cash applied:		
Cost of investments purchased:		
Fixed maturities	10,968,844	13,982,810
Common and preferred stocks	1,124,670	1,650,055
Investments in affiliates	816,735	342,947
Other investments	373,772	859,903
Cash applied to investments	13,284,021	16,835,715
Surplus notes and capital notes	(136)	128,495
Borrowed funds	(74,461)	10,774
Dividends to stockholder	100,000	-
Other, net	642,307	32,816
Total other cash applied	667,710	172,085
Total cash applied	13,951,731	17,007,800
Net decrease in cash and short-term investments	348,017	138,348
Cash and short-term investments, pooled company reorganization	-	(60,443)
Cash and short-term investments, beginning of year	1,051,693	973,788
Cash and short-term investments, end of year	$ 1,399,710	$ 1,051,693

See accompanying notes to the combined statutory-basis financial statements.

LIBERTY MUTUAL INSURANCE COMPANY POOL

Notes to Combined Statutory Basis Financial Statements

(dollars in thousands)

(1) Summary of Significant Accounting Policies

(a) Organization

The accompanying combined statutory-basis financial statements of Liberty Mutual Insurance Company ("LMIC"), Liberty Mutual Fire Insurance Company ("LMFIC"), Employers Insurance Company of Wausau ("EICOW") and Liberty County Mutual Insurance Company ("LCMIC"), collectively referred to as the "Companies", include, on a combined basis, the accounts of their U.S. property and casualty insurance subsidiaries. LMIC, LMFIC and EICOW are wholly owned subsidiaries of Liberty Mutual Group Inc. ("LMGI"). LMGI is 100% owned by LMHC Massachusetts Holdings, Inc. ("LMHC MHI") and LMHC MHI is owned 100% by Liberty Mutual Holding Company, Inc. ("LMHCI").

In December 2005, LMFIC, pursuant to the appropriate regulatory approval, re-domesticated from Massachusetts to Wisconsin.

The Companies provide most types of property and casualty insurance, fidelity and surety bonds, and insurance-related services for individuals, businesses, government units, and associations. The Companies' and their affiliates have operations in North America, South America, Asia and Southern Europe.

(b) Basis of Presentation

The accompanying 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 from accounting principles generally accepted in the United States ("GAAP").

Principal variations from GAAP include:

Investments: Investments in bonds and mandatory redeemable preferred stocks are reported at amortized cost or fair value based on their National Association of Insurance Commissioners ("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 accumulated other comprehensive income, net of related deferred taxes, for those designated as available-for-sale.

All single class and multi-class mortgage-backed/asset-backed securities (e.g., CMOs) are adjusted for the effects of changes in prepayment assumptions on the related accretion of discount or amortization of premium of such securities using either the retrospective or prospective methods. If it is determined that a decline in fair value is other than temporary, the cost basis of the security is written down to the undiscounted estimated future cash flows. For GAAP purposes, all securities, purchased or retained, that represent beneficial interests in securitized assets (e.g., CMO, CBO, CDO, CLO, MBS and ABS securities), other than high credit quality securities, are adjusted using the prospective method when there is a change in estimated future cash flows. If it is determined that a decline in fair value is other-than-temporary, the cost basis of the security is written down to the discounted fair value. If high credit quality securities are adjusted, the retrospective method is used.

LIBERTY MUTUAL INSURANCE COMPANY POOL

Notes to Combined Statutory Basis Financial Statements

(dollars in thousands)

Derivative instruments that meet the criteria of an effective hedge are valued and reported in a manner that is consistent with the hedged asset or liability. Embedded derivatives are not accounted for separately from the host contract. Under GAAP, the effective and ineffective portions of a single hedge are accounted for separately. Additionally, under GAAP, an embedded derivative within a contract that is not clearly and closely related to the economic characteristics and risks of the host contract is accounted for separately from the host contract and valued and reported at fair value. The change in fair value for cash flow hedges is credited or charged directly to a separate component of equity rather than to income as required for fair value hedges.

Undistributed results of limited partnerships are reflected in unrealized gains on a statutory-basis while under GAAP, undistributed earnings are reflected in net investment income or unrealized gains, depending on how the limited partnerships account for unrealized gains.

Subsidiaries: The accounts and operations of the Companies' foreign insurance subsidiaries, life insurance subsidiary, and non insurance subsidiaries are not consolidated with the accounts and operations of the Companies as would be required under GAAP.

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. Goodwill is an admitted asset subject to an aggregate limitation of 10% of the capital and surplus in the most recently filed annual statement excluding EDP equipment, operating system software, net deferred tax assets and net positive goodwill. Goodwill is amortized on a straight-line basis over a period not to exceed ten years and reflected as a component of unrealized capital gain or loss for unconsolidated subsidiaries and other surplus changes. Under GAAP, goodwill is not amortized but is subject to an assessment for impairment on an annual basis, or more frequently if circumstances indicate that a possible impairment has occurred.

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 incurred to the extent the amount does not exceed anticipated acquisition costs on business ceded, rather than being deferred and amortized with deferred policy acquisition costs, as required under GAAP. Any excess commission is deferred and recognized over the policy term consistent with GAAP.

Nonadmitted Assets: Certain assets are designated as "nonadmitted," principally premiums receivable greater than ninety days past-due, furniture and equipment, deferred tax assets in excess of statutory limitations, goodwill in excess of statutory limitations, other intangible assets, and any other asset not specifically identified as an admitted asset within the NAIC Accounting Practices and Procedures Manual ("APP Manual"), are excluded from the accompanying balance sheets and charged directly to unassigned surplus. Under GAAP, such assets are included in the balance sheet, net of any valuation allowance required.

Policyholder Dividends: Policyholder dividends are recognized when declared rather than over the term of the related policies, as would be required under GAAP.

LIBERTY MUTUAL INSURANCE COMPANY POOL

Notes to Combined Statutory Basis Financial Statements

(dollars in thousands)

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: A liability for reinsurance balances has been established for unsecured unearned premiums and unpaid losses ceded to reinsurers not authorized to transact business in certain states of domicile ("unauthorized reinsurance") and for certain overdue reinsurance balances. Changes to those amounts are credited or charged directly to unassigned surplus. Under GAAP, an allowance for amounts deemed uncollectible would be established through a charge to earnings.

Reserves for claims and claim 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 recognized in income but 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. Under GAAP, such gains are deferred and recognized in income using the effective interest method over the expected settlement date.

Deferred Income Taxes: 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 capital and surplus excluding any net deferred tax assets, EDP equipment and operating system software, and any net positive goodwill ("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 income taxes. Under GAAP, state income 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. The difference between proceeds received and the face value of the surplus notes is amortized using the effective interest method over the period to maturity. Interest expense on surplus notes is reported as a component of net investment income when approved to be paid by the Insurance Commissioners of the Commonwealth of Massachusetts and the State of Texas. Under GAAP, surplus notes are reported as debt and the associated interest is reported as interest expense in the period incurred.

Guaranty Funds and Other Assessments: The Companies are subject to guaranty funds and other assessments by the states in which the Companies write business. Guaranty funds and other assessments are accrued after an insolvency has occurred, which in most states is at the point the entity has been adjudicated insolvent, 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. Other assessments are accrued in the case of premium based assessments, at the time the premiums are written, or, in the case of loss based assessments, at the time the losses are incurred. Under GAAP, the assessment is typically accrued when premiums are written because the assessment generally is based on prospective premium writings.

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

The effects of the foregoing variances from GAAP on the accompanying combined statutory-basis financial statements have not been determined, but are presumed to be material.

The preparation of financial statements in conformity with accounting practices prescribed or permitted by the insurance departments of the states in which the Companies are domiciled requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. While management believes that the amounts included in the combined statutory-basis financial statements reflect their best estimates and assumptions, these amounts could ultimately be materially different from the amounts currently provided in the financial statements, as more information becomes known.

(c) Accounting Changes and Correction of Errors

In February 2004, the National Association of Insurance Commissioners issued Statement of Statutory Accounting Principles ("SSAP") No. 88, *Investment in Subsidiary, Controlled and Affiliated Entities, a Replacement of SSAP No. 46. SSAP* No. 88 requires companies to record investments in U.S. insurance subsidiaries based on the underlying audited statutory equity of each entity's financial statements, adjusted for any unamortized goodwill. Investments in foreign insurance subsidiaries are recorded based on the underlying audited U.S. GAAP equity of each entity adjusted to a U.S. statutory basis of accounting. Investments in noninsurance subsidiaries (with other than a minor ownership interest) are reported based on either the underlying U.S. GAAP equity adjusted to a U.S. statutory basis or based on the audited US. GAAP equity of the investee, depending on the nature of the activities in which the subsidiaries are engaged. The Companies adopted SSAP No. 88 effective January 1, 2005, and as a result of adopting SSAP No. 88, the Companies experienced an increase in the carrying value of their foreign subsidiaries of $156,763 and a corresponding increase in unassigned funds.

(d) *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, using the interest method. Unaffiliated common stocks are carried at fair value, as determined by the NAIC Securities Valuation Office (SVO). Preferred stocks are carried at cost or fair value in accordance with the SVO Manual. The related net unrealized capital gains (losses) on common and preferred stocks are reported in unassigned surplus net of any adjustment for deferred taxes. There are no restrictions on common or preferred stock.

LIBERTY MUTUAL INSURANCE COMPANY POOL

Notes to Combined Statutory Basis Financial Statements

(dollars in thousands)

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.

Non-investment grade investment securities are stated at the lower of amortized value or fair value.

The Companies' noninsurance subsidiaries for which 20% or more of their GAAP revenues, excluding unrealized gains and losses, are generated from the Companies and their affiliates and all foreign insurance subsidiaries are reported based on underlying GAAP equity adjusted to a statutory-basis. All other noninsurance subsidiaries are accounted for based on audited GAAP equity. The net change in the subsidiaries' equity is included in the change in net unrealized capital gains or losses. Dividends or distributions received from affiliates are recognized in investment income when declared to the extent that they are not in excess of the undistributed accumulated earnings attributable to the Companies' investment in affiliated common stock. Dividends or distributions declared in excess of the undistributed accumulated earnings attributable to the affiliated entity reduces the carrying amount of the Companies' investment.

Investments in venture capital limited partnerships are carried on the equity method.

Short-term investments include investments with remaining maturities of one year or less at the time of acquisition and are carried at cost.

Company-occupied properties are carried at the lower of depreciated cost or fair value. Depreciation is calculated on the straight-line basis over the estimated useful lives of the properties.

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 along with any adjustment for deferred federal income taxes. 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's financial condition. Unrealized losses that are other-than-temporary are recognized in earnings.

(e) ***Fair Values of Financial Instruments***
The Companies have used the following methods and assumptions in estimating the fair value 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.

LIBERTY MUTUAL INSURANCE COMPANY POOL

Notes to Combined Statutory Basis Financial Statements

(dollars in thousands)

Funds held under reinsurance contracts (asset or liability): The carrying amounts reported in the balance sheets for these instruments approximate their fair values. These amounts are included in other assets or liabilities in the accompanying combined statutory-basis balance sheets.

(f) *Securities Lending*
The Companies engage in securities lending activities whereby certain investment securities are loaned to other institutions for short periods of time. The Companies generally receive cash or short-term investments as collateral from the borrower, equal to or in excess of 102% of the market value of the loaned securities, and reinvests the cash collateral in short-term investments. The loaned securities remain a recorded asset of the Companies, however, the Companies record a liability for the amount of cash collateral held, representing its obligation to return the collateral related to the loaned securities.

(g) *Premiums*
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 premium reserves represent the unexpired portion of premiums written and are determined on a monthly pro-rata basis. Premium adjustments resulting from retrospective rating of experience-rated policies and unbilled audit premiums are estimated and accrued through earned premium. Also accrued are the related taxes, assessments and expenses associated with acquiring, billing, and collecting the premiums. Accrued retrospective premiums included within premiums have been determined based upon loss experience on business subject to such experience rating adjustment. Accrued retrospectively rates premiums, including all those relating to bulk incurred but not reported claims reserves ("IBNR"), have been determined by or allocated to individual policyholder accounts. Ten percent of the amount not offset by retrospective return premiums or collateral has been designated non-admitted and charged to surplus.

(h) *Premium Deficiency Reserves*
When the anticipated losses, loss adjustment expenses, commissions and other acquisition costs and maintenance costs that have not previously been expensed and exceed the recorded unearned premium reserve, future installment premiums on existing policies, and anticipated investment income on existing policies, a premium deficiency reserve is established.

(i) *Reinsurance*
Prospective reinsurance premiums, losses, and loss adjustment expenses are accounted for on basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

For reinsurance contracts that do not transfer insurance risk the cash transactions between the ceding and assuming companies are reflected in the balance sheet as a deposit. Interest income or interest expense is recognized when cash is transferred subsequent to the depletion of the deposit or through the elimination of any remaining deposit upon the completion of the contract. The amount of the deposit asset (or liability) is adjusted by calculating the effective yield on the deposit to reflect actual payments to date and expected future payments with a corresponding credit or charge to interest income or expense.

(j) *Claims and Claim Adjustment Expense Reserves*

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(dollars in thousands)

The Companies establish reserves for unpaid claims and claim adjustment expenses covering events that occurred in 2005 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 might not occur for several years. Reserve estimates are continually reviewed and updated as necessary as experience develops or new information becomes known, and any resulting adjustments are reflected in current operating results.

The Companies write insurance policies that cover catastrophic events. The Companies' policies cover unpredictable natural and other disasters, such as hurricanes, windstorms, earthquakes, floods, fires, terrorist attacks and explosions. Although the Companies carry reinsurance to mitigate their exposure to certain catastrophic events, claims from catastrophic events could reduce the Companies' earnings and cause substantial volatility in its financial results for any year and adversely affect their financial condition or results of operations.

The Companies do not discount reserves other than tabular discounting on the long-term indemnity portion of workers compensation claims and specific asbestos structured settlements. Reserves are reduced for estimated amounts of salvage and subrogation, deductibles recoverable from policyholders and amounts recoverable under reinsurance contracts.

(k) ***Dividends***

For domestic property-casualty insurance, certain insurance contracts, primarily workers' compensation policies, are issued with dividend plans, to be paid subject to approval by the insurer's board of directors. Such policies approximate 2% of domestic property-casualty insurance premiums written at December 31, 2005 and 2004.

(l) ***Foreign Exchange***

The Companies convert foreign currencies to U.S. dollars 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.

LIBERTY MUTUAL INSURANCE COMPANY POOL

Notes to Combined Statutory Basis Financial Statements

(dollars in thousands)

(m) ***Intercompany Pooling Arrangements***
The accompanying combined statutory-basis financial statements of the Companies represent the Liberty Mutual Insurance Company Pool ("LM Pool").

In addition to pooling underwriting results and other income and expenses, the LM Pool members share in related balance sheet activity based on the terms of the LM Pooling and fronting reinsurance agreements and the pool members respective pooling percentages below.

		NAIC Company Number	2005 Pooling Percentage
Lead Company	Liberty Mutual Insurance Company ("LMIC")	23043	66.50%
Affiliated Pool Companies	Employers Insurance Company of Wausau ("EICOW")	21458	16.00%
	Liberty Mutual Fire Insurance Company ("LMFIC")	23035	10.00%
	Liberty Insurance Corporation ("LIC")	42404	6.00%
	Wausau Business Insurance Company ("WBIC")	26069	0.40%
	Wausau General Insurance Company ("WGIC")	26425	0.40%
	Wausau Underwriters Insurance Company ("WUIC")	26042	0.40%
	LM Insurance Company ("LM Insurance")	33600	0.20%
	The First Liberty Insurance Corporation ("First Liberty")	33588	0.10%
	Liberty Surplus Insurance Corporation ("LSIC")	10725	0.00%
	Liberty Personal Insurance Company ("LPIC")	11746	0.00%
	Liberty Insurance Company of America ("LICA")	10337	0.00%
100% Quota Share Affiliated Companies	Liberty Lloyds of Texas Insurance Company ("Lloyds")	11041	0.00%
	Liberty County Mutual Insurance Company ("LCMIC")	19544	0.00%
	Liberty Insurance Underwriters, Inc. ("LIU")	19917	0.00%
	Bridgefield Employers Insurance Company ("BEIC")	10701	0.00%
	Bridgefield Casualty Insurance Company ("BCIC")	10335	0.00%
	LM Property and Casualty Insurance Company ("LMPAC")—formerly known as Prudential Property and Casualty Insurance Company	32352	0.00%
	LM General Insurance Company ("LMGIC")—formerly known as Prudential General Insurance Company	36447	0.00%
	LM Personal Insurance Company ("LMPIC")—formerly known as Prudential Commercial Insurance Company	36439	0.00%

All LM Pool company cessions to non-affiliated reinsurers are reported and ceded on an individual company basis prior to the cession of pooled business from the affiliated pool members, except for WBIC, WGIC and WUIC, to the lead company, LMIC. WBIC, WGIC and WUIC cede 100% of their direct underwriting activity to EICOW following all cessions to non-affiliated reinsurers. All cessions by LMIC to non-affiliated reinsurers are reported and ceded through the lead company, LMIC. All cessions to non-affiliated reinsurers are done subsequent to the cession of pooled business from the affiliated pool members to the lead company.

LMGIC and LMPIC, after external reinsurance, cede their net underwriting activity to LMPAC. LMPAC cedes the majority of its underwriting results to LMIC. LMPAC does retain certain defined lines of business within its own legal entity.

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Notes to Combined Statutory Basis Financial Statements

(dollars in thousands)

Pursuant to the approval of the appropriate State Insurance Departments, effective January 1, 2004, Golden Eagle Insurance Co. ("GEIC") and Montgomery Mutual Insurance Co. ("MMU"), cancelled their participation in the LM Pool and concurrently became a member of the Liberty Insurance Holdings Group ("Peerless") Pool. Also effective January 1, 2004, GEIC entered into a Fronting Agreement with LMIC, whereby it would continue to cede 100% of its workers' compensation activity to LMIC.

Additionally, pursuant to the approval of the appropriate state insurance departments, effective January 1, 2004, Merchants and Business Men's Mutual Insurance Co. ("M&B") and Colorado Casualty Insurance Co. ("CCIC") cancelled their fronting agreements with LMIC and concurrently entered into fronting agreements with Peerless Insurance Co. ("PIC"). Under the terms of the fronting agreements, after processing its external reinsurance, each company cedes 100% of its direct underwriting activity to PIC.

The above transactions resulted in the companies transferring their in-force business and related statutory book value of assets and statutory value of liabilities, as of January 1, 2004, (except for GEIC's workers' compensation business), from the LM Pool to the Peerless Pool and compensating the companies in the Peerless Pool by a like amount.

(n) ***Related Party Transactions***
LMIC has service agreements with its subsidiaries and several affiliated companies. Under the agreements, LMIC provides its affiliated companies with office space, supplies, equipment, telephone and wire services, the use of computers and similar machines and services of personnel employed by LMIC. Services include but are not limited to the following: claims handling, credit and collections, sales policy production, underwriting, investment management, and a variety of computer activities. LMIC is reimbursed for the costs of all services which it provides under these agreements.

Pursuant to an Employee Benefit Plans Cost-Sharing Agreement, LMIC has agreed to reimburse LMGI for certain costs related to one or more employee benefit or welfare plans covering current or past employees of LMIC or its affiliates which have been transferred to LMGI or which may be transferred to LMGI in the future. The amount of the reimbursement is the required contributions to the pension plans and with respect to other plans, the benefits incurred on the Companies' behalf.

(o) ***Reclassifications***
Certain 2004 amounts in the Companies' combined statutory-basis financial statements have been reclassified to conform to the 2005 financial statement presentation.

LIBERTY MUTUAL INSURANCE COMPANY POOL

Notes to Combined Statutory Basis Financial Statements

(dollars in thousands)

(2) Investments

(a) *Fixed Maturities*

The amortized cost and fair values of fixed maturity securities at December 31, 2005 and 2004, are as follows:

December 31, 2005	Statement Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$ 1,989,346	$ 10,480	$ (40,048)	$ 1,959,778
U.S. mortgage and asset-backed securities of government and corporate agencies	8,283,978	49,131	(129,357)	8,203,752
State and political subdivisions	3,015,048	48,041	(18,342)	3,044,747
Corporate and other	7,961,549	136,204	(138,599)	7,959,154
Total fixed maturities	$ 21,249,921	$ 243,856	$ (326,346)	$21,167,431

December 31, 2004	Statement Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$ 1,755,401	$ 20,319	$ (13,288)	$ 1,762,432
U.S. mortgage and asset-backed securities of government and corporate agencies	8,727,803	160,620	(33,622)	8,854,801
State and political subdivisions	840,249	43,091	(1,503)	881,837
Corporate and other	8,530,866	181,824	(41,552)	8,671,138
Total fixed maturities	$19,854,319	$ 405,854	$ (89,965)	$20,170,208

The amortized cost and fair values of fixed maturity securities at December 31, 2005, by contractual maturity, are as follows:

	Statement Value	Fair Value
Due to mature:		
One year or less	$ 449,770	$ 450,394
Over one year through five years	3,704,029	3,671,978
Over five years through ten years	4,170,422	4,135,395
Over ten years	4,621,256	4,683,984
U.S. and foreign mortgage and asset-backed securities	8,304,444	8,225,680
Total fixed maturities	$ 21,249,921	$ 21,167,431

Expected maturities may differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(b) *Common and Preferred Stocks and Other Investments*

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Notes to Combined Statutory Basis Financial Statements

(dollars in thousands)

The cost of common and preferred stocks and other investments at December 31, 2005 and 2004 are as follows:

	2005	2004
Common stocks	$ 759,413	$ 909,351
Preferred stocks	66,245	106,754
Other investments	839,502	738,356
	$ 1,665,160	$ 1,754,461

(c) Investments in Affiliates

Investments in affiliates consist primarily of the Companies' investments in insurance, international, and financial services subsidiaries. The Companies' equity in the net assets of subsidiaries is summarized as follows at December 31, 2005 and 2004:

	2005	2004
Total assets	$ 28,302,943	$ 23,752,527
Total liabilities	(24,214,171)	(20,110,749)
Companies' equity in net assets	$ 4,088,772	$ 3,641,778

Equity in net assets of unconsolidated subsidiaries is distributed as follows at December 31, 2005 and 2004:

	2005	2004
International subsidiaries	$ 1,177,848	$ 1,045,556
Liberty Insurance Holdings Property-Casualty Companies	1,866,268	1,666,342
Wausau Service Corp.	13,897	14,903
Liberty Northwest Insurance Corporation	231,757	205,766
Liberty Life Assurance Company of Boston	431,685	302,619
Other subsidiaries and non-admitted goodwill	367,317	406,592
Equity in net assets of unconsolidated subsidiaries	$ 4,088,772	$ 3,641,778

The remaining unamortized goodwill and other intangible asset balances included as a component of the Companies' investments in unconsolidated subsidiaries at December 31, 2005 and 2004 were $187,932 and $349,781, respectively, with corresponding goodwill amortization of $52,594 and $55,937 during 2005 and 2004, respectively. Goodwill decreased $112,000 related to the Companies' investment in Liberty Spain Insurance Group LLC ("LSIG") in 2005 as a result of the implementation of *SSAP 88*.

In December 2004, LMIC's subsidiary Liberty Massachusetts Trust was dissolved and in its place, Liberty International Holdings LLC ("LIH LLC") and Liberty Mutual Captive Holding LLC ("LMCH LLC), both Delaware companies, were formed. Upon the formation of the LLCs, LMIC's investment in Liberty International Holdings, Inc. and the Bermuda captive insurance companies were changed from a common stock affiliated investment to an other invested asset. The presentation in the financial statements is consistent with last year and is included in investment in affiliates. This was accounted for as a non-cash transaction. LMIC's carrying value in LIH LLC and

LIBERTY MUTUAL INSURANCE COMPANY POOL

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(dollars in thousands)

LMCH LLC was $798,045 and $26,145 at December 31, 2005, respectively and $677,374 and $33,445 at December 31, 2004, respectively.

In November 2004, the Companies formed Liberty Spain Insurance Group LLC ("LSIG"), a Delaware company, and LMIC transferred its direct ownership in Liberty Insurance Group Compania de Seguros y Reaseguros S.A. (Spain) to LSIG. Upon the formation of the LLC, LMIC's direct investment in Spain changed from a common stock affiliated investment to an other invested asset. The presentation in the financial statements is consistent with last year and is included in investment in affiliates. This was accounted for as a non-cash transaction. LMIC's carrying value in LSIG at December 31, 2005 and 2004 was $344,523 and $292,420, respectively.

During 2005, LMIC received dividends from affiliated investments of $314,007. The dividends were primarily distributed from Liberty Energy LLC and LSIG in the amount of $293,037 and $18,044, respectively.

During 2004, the Companies received a $3,000 dividend from Liberty Mutual Capital Corporation (Boston) ("LMCC") and subsequent to the dividend; LMCC was sold to LMGI at statutory book value. After LMCC was sold to LMGI, LMCC was merged with and into LMGI.

(d) ***Realized Investment Gains (Losses)***
Realized investment gains (losses) were as follows in 2005 and 2004:

	2005	2004
Fixed maturities:		
Gross gains	$ 158,815	$ 273,469
Gross losses	(29,488)	(28,801)
Common and preferred stocks:		
Gross gains	204,451	101,584
Gross losses	(49,486)	(81,258)
Other investments:		
Gross gains	124,654	68,265
Gross losses	(29,751)	(2,705)
	$ 379,195	$ 330,554

Proceeds from sales of fixed maturity investments during 2005 and 2004, were $5,066,797 and $6,489,116, respectively.

Realized capital losses included other-than-temporary impairment write-downs of $48,735 and $66,599 in 2005 and 2004, respectively.

LIBERTY MUTUAL INSURANCE COMPANY POOL

Notes to Combined Statutory Basis Financial Statements

(dollars in thousands)

The following table shows a schedule of the Companies' unrealized losses and fair value by security type by duration of potential impairment at December 31, 2005.

	Less Than 12 Months		Greater Than 12 Months	
	Unrealized Losses	**Fair Value of Investments with Unrealized Losses**	**Unrealized Losses**	**Fair Value of Investments with Unrealized Losses**
U.S. Treasury Securities	$ (19,619)	$ 1,239,146	$ (20,429)	$ 529,667
U.S. mortgage and asset-backed securities	(88,096)	5,383,139	(41,261)	830,074
State and municipal securities	(17,511)	1,200,901	(831)	22,120
Corporate and other	(93,312)	3,925,137	(45,287)	998,891
Equities	(10,594)	127,573	(5,049)	43,821
Total	$ (229,132)	$ 11,875,896	$ (112,857)	$ 2,424,573

The majority of unrealized losses reported in the corporate and other category involve holdings where the market value is less than 10% below book value. Also included in these unrealized losses are amounts relating to securities issued and guaranteed by agencies of the U.S. Government.

The equity holdings reflecting unrealized losses were not deemed to be impaired on an other-than-temporary basis under the Companies' impairment policy.

The unrealized losses on the securities above are subject to review during each quarterly impairment analysis cycle.

The Companies employ a systematic methodology to evaluate declines in fair value below the book value for equity securities and other investments. The methodology utilizes a quantitative and qualitative process ensuring that available evidence concerning the declines in fair value below carrying value is evaluated in a disciplined manner. Based on that evaluation and the Companies' ability and intent to hold these investments for a reasonable period of time sufficient for a recovery of fair value, the Companies view the decline in market value of these investments as being temporary in accordance with the Companies' impairment policy.

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(dollars in thousands)

The following table shows a schedule of the Companies' unrealized losses and fair value by security type by duration of potential impairment at December 31, 2004.

	Less Than 12 Months		Greater Than 12 Months	
	Unrealized Losses	**Fair Value of Investments with Unrealized Losses**	**Unrealized Losses**	**Fair Value of Investments with Unrealized Losses**
U.S. Treasury Securities	$ (10,233)	$ 803,710	$ (3,055)	$ 93,585
U.S. mortgage and asset-backed securities of government and corporate agencies	(18,370)	1,894,006	(15,252)	388,125
State and political subdivisions	(436)	107,071	(1,067)	22,964
Corporate and other	(16,590)	1,713,036	(24,962)	594,338
Equities	(10,793)	95,037	(3,499)	16,337
Total	$ (56,422)	$ 4,612,860	$ (47,835)	$ 1,115,349

The majority of unrealized losses reported in the corporate and other category involve holdings where the market value is less than 10% below book value. Also included in these unrealized losses are amounts relating to securities issued and guaranteed by agencies of the U.S. Government.

The equity holdings reflecting unrealized losses were not deemed to be impaired on an other-than-temporary basis under the Companies' impairment policy.

The unrealized losses on the securities above are subject to review during each quarterly impairment analysis cycle.

The Companies have cost method investments consisting primarily of equities with a market value of $103,736 and $124,070 at December 31, 2005 and 2004, respectively. All of the Companies' cost method investments are evaluated systematically for identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investment.

(dollars in thousands)

(e) Net Investment Income

Net investment income for the years ended December 31, 2005 and 2004, consisted of:

	2005	2004
Fixed maturities	$ 1,109,420	$ 1,074,869
Common and preferred stocks	66,627	71,612
Short-term investments	30,344	15,007
Other	38,309	21,787
Affiliated dividends	314,007	21,281
Gross investment income	1,558,707	1,204,556
Investment and other expense	(217,402)	(145,356)
Net investment income	$ 1,341,305	$ 1,059,200

(f) *Statutory Deposits*

At December 31, 2005 and 2004, fixed maturity securities carried at $3,513,967 and $3,963,148, respectively, were on deposit with state insurance departments to satisfy regulatory requirements.

(g) ***Securities Loaned***

At December 31, 2005, the market value of fixed maturity securities loaned was approximately $199,579. Cash and short-term investments received as collateral in connection therewith at December 31, 2005 was approximately $89,057, while non-cash collateral received in connection therewith was approximately $114,767.

(3) Discontinued Operations

In September 2003, LMHC's Board of Directors approved a plan to dispose of its Canadian personal lines property and casualty operations (automobile and homeowners insurance) and LMIC's wholly owned subsidiary, Liberty Insurance Company of Canada. On April 1, 2004, the Company completed the sale to Meloche Monnex, Inc. a member of TD Bank Financial Group ("Meloche Monnex"). The transaction resulted in the transfer of approximately 350,000 automobile and homeowner insurance policies and approximately $300,000 (C$390,000) in direct written premiums to Meloche Monnex.

The results of the discontinued operations of the Canadian personal lines property and casualty operations included in the combined statutory-basis statements of income are as follows:

	2004
Premiums earned	$ 54,926
Income before income taxes	$ 9,149
Federal and foreign income tax expense	605
Net income	$ 8,544

(4) Unpaid Claims and Claim Adjustment Expenses

The Companies establish reserves for payment of claims and claim adjustment expenses that arise from the policies issued. As required by applicable accounting rules, no reserves are established until a loss, including a loss from a catastrophe, occurs. The Companies' reserves are segmented into three major categories: reserves for reported claims (estimates made by claims adjusters); IBNR representing reserves for unreported claims and supplemental reserves for reported claims; and reserves for the costs to settle claims. The Companies establish reserves net of salvage and subrogation by line of business or coverage and by the year in which losses occur.

Establishing loss reserves, including loss reserves for catastrophic events that have occurred, is an estimation process. Many factors can ultimately affect the final settlement of a claim and, therefore, the necessary reserve. Changes in the law, results of litigation, medical costs, the costs of repair materials and labor rates can all affect ultimate claim costs. In addition, time can be a critical part of reserving determinations since the longer the span between the incidence of a loss and the payment or settlement of the claim, the more variable the ultimate settlement can be. Accordingly, "short-tail" claims, such as property damage claims, tend to be easier to estimate than "long-tail" claims, such as workers compensation or general liability claims.

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' estimates of ultimate liabilities may be required. The effects of these changes are reflected in current operating results.

Catastrophes are an inherent risk of the property-casualty insurance business and have contributed to material period-to-period fluctuations in the Companies' results of operations and financial position. The level of catastrophe losses experienced in any period cannot be predicted and can be material to the results of operations and financial position of the Companies. Catastrophe losses incurred during the years ended December 31, 2005 and 2004 were $752,000 and $516,000, respectively, and are related to hurricanes in 2005, hurricanes in 2004, and claims arising from the terrorist attack of September 11, 2001. The September 11, 2001 exposure arises primarily from property, workers compensation and reinsurance contracts. Although uncertainty about the final loss amount still exists, the claims are reasonably estimable and such estimate has been recorded. The cumulative pre-tax impact, net of reinsurance, of the September 11, 2001 exposure is approximately $93,346.

See Note 5 for a discussion of incurred claims and claim adjustment expenses attributable to prior years for asbestos and environmental reserves.

LIBERTY MUTUAL INSURANCE COMPANY POOL

Notes to Combined Statutory Basis Financial Statements

(dollars in thousands)

Activity in property and casualty unpaid claims and claim adjustment expenses of the Companies, net of reinsurance recoverables on unpaid claims and claim adjustment expenses, is summarized as follows:

	2005	2004
Balance as of January 1	$ 16,118,394	$15,999,484
Intercompany pool transfer	-	(521,234)
Adjusted balance as of January 1	16,118,394	15,478,250
Incurred attributable to:		
Current year	7,881,170	7,409,493
Prior years:		
Discount accretion	95,000	96,000
All other	588,861	530,090
Total incurred	8,565,031	8,035,583
Paid attributable to:		
Current year	3,242,870	2,904,314
Prior years	4,133,907	4,495,939
Total paid	7,376,777	7,400,253
Net adjustment due to foreign exchange	(6,007)	4,814
Balance as of December 31	$17,300,641	$16,118,394

In 2005 and 2004, incurred claims and claim adjustment expenses attributable to prior years, excluding asbestos and environmental, is primarily related to rising loss development trends in commercial lines including workers compensation and general liability. Original estimates are revised as additional information becomes known regarding individual claims. A portion of the unfavorable prior year loss development relates to retrospectively rated policies. Additional premium accruals have been made that partially offset this adverse loss development.

The tabular discounting on workers' compensation claims is based upon Unit Statistical Plan tables as approved by the respective states and generally ranges from 3.5% to 4.0% for the years ended December 31, 2005 and 2004. Unpaid claims and claim adjustment expenses at December 31, 2005 and 2004 include liabilities of $3,418,348 and $3,465,704 at discounted values of $2,099,541 and $2,168,973, respectively.

During 2004, and as discussed in Note 6, LMIC commuted its reinsurance agreement with Liberty Life Assurance Company of Boston ("Liberty Life"), a direct unconsolidated subsidiary owned 90% by LMIC and 10% by LMFIC, and therefore, no longer carries discounted disability reserves.

For certain commercial lines of insurance, the Companies offer experience-rated insurance contracts whereby the ultimate premium is dependent upon the claims incurred. At December 31, 2005 and 2004, the Companies held $3,897,264 and $3,626,712, respectively, of unpaid claims and claim adjustment expenses related to experience-rated contracts. Premiums receivable included accrued retrospective premiums and unbilled audit premiums of $783,232 and $852,773 at December 31, 2005 and 2004, respectively; $79,174 and $85,769, respectively, have been designated as non-admitted assets and charged to surplus.

Unpaid claims and claim adjustment expenses are recorded net of anticipated salvage and subrogation of $410,160 and $484,026 as of December 31, 2005 and 2004, respectively.

At December 31, 2005 and 2004, the Companies recorded reserve credits for large dollar deductibles on unpaid claim losses of $4,183,770 and $3,799,820, respectively. The Companies' billed and recoverable was $257,954 and $236,128 as of December 31, 2005 and 2004, respectively.

(5) Asbestos and Environmental Reserves

The Companies have exposure to asbestos and environmental claims that emanate principally from general liability policies written prior to the mid-1980's. In establishing asbestos and environmental reserves, the Companies estimate case basis reserves for anticipated losses and bulk reserves for loss adjustment expenses and IBNR losses. The Companies maintain casualty excess of loss reinsurance for the relevant periods. The reserves are reported net of cessions to reinsurers and include any reserves reported by ceding reinsurers on assumed reinsurance contracts.

Upon their de-affiliation from the Nationwide Group and affiliation with the Company, EICOW, WBIC, WGIC, and WUIC entered into ceded reinsurance contracts whereby Nationwide Indemnity Company assumed full responsibility for obligations on certain policies with effective dates prior to January 1, 1986, including all asbestos and environmental exposures.

The process of establishing reserves for asbestos and environmental claims is subject to greater uncertainty than the establishment of reserves for liabilities relating to other types of insurance claims. A number of factors contribute to this greater uncertainty surrounding the establishment of asbestos and environmental reserves, including, without limitation: (i) the lack of available and reliable historical claims data as an indicator of future loss development, (ii) the long waiting periods between exposure and manifestation of any bodily injury or property damage, (iii) the difficulty in identifying the source of asbestos or environmental contamination, (iv) the difficulty in properly allocating liability for asbestos or environmental damage, (v) the uncertainty as to the number and identity of insureds with potential exposure, (vi) the cost to resolve claims, and (vii) the collectibility of reinsurance.

The uncertainties associated with establishing reserves for asbestos and environmental claims and claim adjustment expenses are compounded by the differing, and at times inconsistent, court rulings on environmental and asbestos coverage issues involving: (i) the differing interpretations of various insurance policy provisions and whether asbestos and environmental losses are or were ever intended to be covered, (ii) when the loss occurred and what policies provide coverage, (iii) whether there is an insured obligation to defend, (iv) whether a compensable loss or injury has occurred, (v) how policy limits are determined, (vi) how policy exclusions are applied and interpreted, (vii) the impact of entities seeking bankruptcy protection as a result of asbestos-related liabilities, (viii) whether clean-up costs are covered as insured property damage, and (ix) applicable coverage defenses or determinations, if any, including the determination as to whether or not an asbestos claim is a products/completed operation claim subject to an aggregate limit and the available coverage, if any, for that claim. These uncertainties cannot be reasonably estimated, but could have a material impact on the Companies' future operating results and financial condition.

In recent years, the Companies, as well as the industry in general, have witnessed a significant increase in the number of asbestos claims being filed, due to a number of variables, including more intensive advertising by lawyers seeking asbestos claimants, the increasing focus by plaintiffs on new and previously peripheral defendants, attempts to broaden the interpretation of compensable loss, and courts expanding the scope of the coverage.

In the third quarter of 2005, a multi-disciplined team of internal claims, legal, reinsurance and actuarial personnel completed their comprehensive review of the Companies' asbestos exposure on a direct, assumed, and ceded basis. As part of the internal review, potential exposures of large policyholders were individually evaluated using the Company's proprietary stochastic model, which is consistent with the latest published actuarial paper on asbestos reserving. Among the factors reviewed in depth by the team of specialists were the type of business, level of exposure, coverage limits, geographic distribution of products, types of injury, state jurisdictions, legal defenses, and reinsurance potential. Small policyholders were evaluated using aggregate methods that utilized information developed from the large policyholders. Additionally, a provision for pure incurred but not reported losses was established for the potential emergence of first-time filers for future asbestos claims. As a result of the comprehensive study, the Companies increased net loss and allocated loss adjustment expense reserves by $203,000.

During 2004, the Companies completed a comprehensive study of their environmental reserves. The study was performed with the assistance of an independent actuarial firm, and focused on the implications of claim and litigation trends and other significant developments. The study encompassed the liabilities with respect to both National Priority List (NPL) claims and direct site claims involving the presence of hazardous waste at sites owned or operated by the insured. As a result of the comprehensive study, the Companies increased net loss and allocated loss adjustment expense reserves by $316,000.

As a result of the significant uncertainty inherent in determining a company's asbestos and environmental liabilities and establishing related reserves, the amount of reserves required to adequately fund the Companies asbestos and environmental claims cannot be accurately estimated using conventional reserving methodologies based on historical data and trends. As a result, the use of conventional reserving methodologies frequently has to be supplemented by subjective considerations including managerial judgment. In that regard, the estimation of asbestos claims and associated liabilities and the analysis of environmental claims considered prevailing applicable law and certain inconsistencies of court decisions as to coverage, plaintiffs' expanded theories of liability, and the risks inherent in major litigation and other uncertainties, the Companies believe that in future periods it is possible that the outcome of the continued uncertainties regarding asbestos and environmental related claims could result in an aggregate liability that differs from current reserves by an amount that could be material to the Companies' future operating results and financial condition.

Unpaid claims and claim adjustment expenses for asbestos and environmental related claims, net of reinsurance, were $1,486,254 and $1,480,865 at December 31, 2005 and 2004, respectively.

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The following table summarizes reserve and loss activity for the Companies' asbestos and environmental claims and claim adjustment expenses for the years ended December 31, 2005 and 2004.

	2005	2004		2005	2004
Asbestos Gross:			**Environmental Gross:**		
Beginning reserves	$2,367,219	$ 2,016,279	Beginning reserves	$ 796,231	$ 393,408
Acquisitions	-	-	Acquisitions	-	-
Incurred losses and LAE	611,083	674,114	Incurred losses and LAE	146,336	480,461
Calendar year payments	289,828	323,174	Calendar year payments	190,307	77,638
Ending reserves	$ 2,688,474	$ 2,367,219	Ending reserves	$ 752,260	$ 796,231
Asbestos Net:			**Environmental Net:**		
Beginning reserves	$ 942,381	$ 1,102,102	Beginning reserves	$ 538,484	$ 269,654
Acquisitions	-	-	Acquisitions	-	-
Incurred losses and LAE	236,090	17,074	Incurred losses and LAE	509	315,986
Calendar year payments	129,645	176,795	Calendar year payments	101,565	47,156
Ending reserves	$ 1,048,826	$ 942,381	Ending reserves	$ 437,428	$ 538,484

(6) 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 serves as a servicing carrier for residual market organizations.

The effects of reinsurance on premiums written and earned for the years ended December 31, 2005 and 2004 were as follows:

	2005		2004	
	Written Premium	Earned Premium	Written Premium	Earned Premium
Direct	$ 13,112,417	$ 13,006,205	$ 12,838,478	$ 12,398,524
Assumed	552,569	548,251	781,380	825,484
Ceded	(3,068,898)	(3,194,824)	(3,595,228)	(3,522,967)
Net premiums	$ 10,596,088	$ 10,359,632	$ 10,024,630	$ 9,701,041

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

The Companies have an aggregate reinsurance recoverable from Nationwide Indemnity Company in the amount of approximately $2,099,835 and $1,829,267 as of December 31, 2005 and 2004, respectively. The reinsurance recoverable is guaranteed by Nationwide Mutual Insurance Company. Additionally, the Companies have significant reinsurance recoverable concentrations with Swiss

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Reinsurance Group, Berkshire Hathaway Group, GE Global Group, Everest Re Group, and Munich Re Group, totaling approximately $1,272,078, $524,466, $335,924, $366,437, and $432,902, respectively, as of December 31, 2005, net of offsetting collateral under the contracts.

Recoverables from state mandated involuntary market pools and associations primarily represent servicing carrier business. As a servicing carrier, the Companies retain no direct underwriting risk but instead cede 100% of the involuntary premium and losses back to the pool. Payment of losses is shared among the pool participants in proportion to their pool participation. Credit risk with respect to any given pool or association is a composite of the cumulative credit of all participants.

LMIC entered into a reinsurance agreement effective January 1, 1998 with Liberty Life, a direct, unconsolidated subsidiary of LMIC, whereby Liberty Life ceded 100% of long and short-term disability business on a funds withheld basis. During 2004, LMIC commuted the agreement with Liberty Life which resulted in a decrease of claims and claim adjustment expenses and premiums earned of $731,514 and a statutory net gain of $57,235.

LMIC entered into a reinsurance agreement effective January 1, 2003 with St. James Insurance Company ("St James"), an unconsolidated affiliate of LMIC, whereby LMIC retroceded the Liberty Life long and short-term disability business on a funds withheld basis. With the commutation of the Liberty Life reinsurance, LMIC also commuted the St. James retrocession agreement during 2004. For the year ended December 31, 2004, the commutation resulted in an increase of claims and claim adjustment expenses of $332,323 and a statutory net loss of $23,336.

Effective April 1, 2003 and April 1, 2004, LMIC entered into four quota share reinsurance agreements with Liberty RE Bermuda, a direct, unconsolidated subsidiary of LMIC, whereby LMIC ceded Homeowners, Auto Physical Damage, Other Liability and Products Liability. All of these agreements are on a funds held basis with the exception of the Auto Physical Damage. During 2005, both Auto Physical Damage agreements were commuted.

Effective November 1, 2004, LMIC entered into a quota share reinsurance agreement whereby LMIC ceded Auto Physical Damage to St James.

Effective November 1, 2005, LMIC entered into two quota share reinsurance agreements whereby LMIC ceded Auto Physical Damage to Liberty Re Bermuda and St James.

For the agreements discussed in the three preceding paragraphs, LMIC ceded premiums earned of $362,347 and $517,688 for the years ended December 31, 2005 and 2004, respectively. Ceded claims and claim adjustment expenses incurred as of December 31, 2005 and 2004 were $259,167 and $400,913, respectively. The cessions resulted in statutory net losses of $66,995 and $12,177 for the years ended December 31, 2005 and 2004, respectively.

In 2002 and prior, the Companies entered into retroactive reinsurance agreements with unaffiliated entities where a significant portion of the consideration is retained on a "funds held" basis and interest is credited on the balance with a weighted average rate of approximately 7.7% annually. The Companies transferred unpaid claims and claim adjustment expenses of $29,785 and $(5,714) and recorded other (expense) income of $(5,830) and $24,206 in 2005 and 2004, respectively. Interest credited to the funds held balances for the years ended December 31, 2005 and 2004 was $113,122 and $102,943, respectively.

(dollars in thousands)

(7) Debt

The Companies maintain a $600,000 revolving line of credit with LMGI. Outstanding borrowings as of December 31, 2005 and 2004 totaled $102,111 and $3,109, respectively. Interest is paid quarterly in arrears based on average borrowings at a variable interest rate. Interest expense incurred related to this agreement was $2,516 and $1,481 in 2005 and 2004, respectively. Interest paid related to this agreement was $1,911 and $1,692 in 2005 and 2004, respectively.

During 2005, LMIC repaid a demand note with a principal amount of $19,541 to its wholly owned subsidiary, Liberty Re (Bermuda). Interest was payable semi-annually on the first day of April and October, computed at LIBOR plus .15%. $1,234 of interest was paid in 2005.

(8) Capital and Surplus

As of December 31, 2005 and 2004, LMIC and LMFIC each had 100,000 shares ($100 par value) authorized, issued and outstanding and EICOW had 5,000,000 shares ($1 par value) authorized, issued, and outstanding. As of December 31, 2005, the Companies have restricted surplus of $1,174,771 resulting from retroactive reinsurance contracts.

The Companies received capital contributions from LMGI in the amount of $585,725 and $768,837 in 2005 and 2004, respectively.

Property and casualty insurance companies are subject to certain Risk-Based Capital ("RBC") requirements as specified by the NAIC. Under those requirements, the amount of capital and surplus maintained by a property and casualty insurance company is to be determined based on the various risk factors related to it. At December 31, 2005, the Companies exceed the RBC requirements.

(9) Surplus Notes

Surplus notes represent subordinated debt instruments classified as a component of surplus for statutory accounting purposes. At December 31, 2005 and 2004, the Companies had the following surplus notes outstanding:

Interest Rate, Amount of Note, Date of Maturity	2005	2004
8.200%, $121,361 Notes due May 4, 2007	$ 121,239	$ 121,212
8.500%, $150,000 Notes due May 15, 2025	149,800	149,790
7.875%, $250,000 Notes due October 15, 2026	249,709	249,696
7.697%, $500,000 Notes due October 15, 2097	492,238	492,153
	$ 1,012,986	$ 1,012,851

Payments for interest on and principal of the notes are expressly subordinate to all policyholder claims and other obligations of the Companies. Accordingly, interest and principal payments are contingent upon prior approval of the Commissioner of Insurance of the State of Massachusetts. Interest paid was $80,874 and $85,504 for the years ended December 31, 2005 and 2004. On April 12, 2004, LMIC retired approximately $128,639 of its $250,000 note, due May 4, 2007 and realized a loss of approximately $18,773.

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(10) Federal and Foreign Income Taxes

LCMIC files a separate Federal income tax return. All other Companies file as members of a consolidated Federal income tax return with LMHC. Pursuant to a written intercompany Federal income tax allocation agreement, the consolidated tax liability is allocated to each company based on its separate tax liability. Tax benefits are allocated to each member company for its portion of net operating losses and carryforwards in the year they are used by the consolidated group. Companies have the enforceable right to recoup prior payments in the event of future losses. Intercompany tax balances are settled quarterly. A provision is made, where applicable, for taxes on foreign operations.

As of December 31, 2005 and 2004, the components of the net deferred tax assets and liabilities are as follows:

	2005	2004
Gross deferred tax assets	$ 1,750,903	$ 1,793,625
Gross deferred tax liabilities	(630,979)	(411,197)
Net deferred tax asset	1,119,924	1,382,428
Net deferred tax asset non-admitted	(286,207)	(660,062)
Net admitted deferred tax asset	$ 833,717	$ 722,366

The (benefit) provision for incurred taxes on earnings for the years ended December 31 are:

	2005	2004
Federal	$ 63,160	$ 154,527
Utilization of net operating loss	(33,642)	(238,919)
Foreign	18,758	28,568
Federal and foreign income taxes incurred	$ 48,276	$ (55,824)

The Companies' deferred tax assets and liabilities result primarily from discounting of unpaid loss and LAE reserves, limits on unearned premium reserve deductions, deferred compensation deductions, reversal of discount accretion on bonds, investment impairments, fixed asset depreciation differences, unrealized gains, statutory non-admitted assets, net operating loss carryforwards, and tax credit carryforwards.

Effective tax rates differ from the current statutory rate of 35% principally due to the effects of tax-exempt interest, excludible dividend income, foreign operations, revisions to prior year estimates, and changes in deferred taxes related to non-admitted assets.

The amount of Federal income taxes incurred and available for recoupment in the event of future losses is $68,225 from the current year and $97,457 from the preceding year.

As of December 31, 2005, the Companies have net operating carry-forwards of:

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Year Generated	Amount	Expiration
1998	$ 7,699	2018
2001	46,341	2021
2002	2,523	2022
Total	$ 56,563	

The Companies also have alternative minimum tax credits of $41,945 which do not expire and foreign tax credits of $35,579 that was generated in 2003 and 2004 and expires in 2013 and 2014.

The Companies have not provided for deferred taxes on unremitted earnings of subsidiaries outside the United States where such earnings are permanently invested and the Companies do not expect those unremitted earnings to reverse and become taxable to the Companies in the foreseeable future. At December 31, 2005, unremitted earnings of foreign subsidiaries were $422,871. If these earnings were distributed in the form of dividends or otherwise, the Companies would be subject to U.S. income taxes less an adjustment for applicable foreign tax credits.

During 2004, the American Jobs Creation Act of 2004 ("The Act") was signed into law. The Act introduced a special one-time 85% dividends received deduction on the repatriation of certain foreign earnings to a United States taxpayer, provided certain criteria are met. The maximum amount of foreign earnings eligible for the deduction is limited to the greater of $500,000 or the amount shown in the Companies' most recent audited financial statements filed prior to June 30, 2003 as earnings permanently reinvested outside of the United States. In 2005, the Companies repatriated a total of $161,144 from its foreign subsidiaries and recorded a related expense of $18,181.

During 2004, the Companies reached a settlement with the Internal Revenue Service ("IRS") relating to its federal income tax liability for the 1994 through 1996 tax years. Results for the year ended December 31, 2004 increased $18,000 due to settlements of these prior year tax issues.

The IRS has completed its review of the Companies' federal income tax returns through the 1998 tax year and is currently reviewing income tax returns for the 1999 through 2003 tax years. Any adjustments that may result from the IRS examinations of these income tax returns are not expected to have a material impact on the financial position, liquidity or results of operations of the Companies.

(11) Benefit Plans

(a) Pension Plans and Postretirement Benefits

The Companies continue to sponsor non-contributory defined benefit and contributory defined contribution pension plans covering substantially all Canadian and certain U.S. employees. The benefits and eligibility are based on age, years of service and the employee's compensation, as more fully defined in the Plan. As of December 31, 2005 and 2004, the Companies accrued pension cost in accordance with the actuarially determined amounts, with an offset for the incremental asset amortization.

The Companies' U.S. postretirement health and life benefit obligations, except for Liberty Northwest, are also sponsored by LMGI. Accordingly, the plan assets and obligations are not included in the Companies' summary of assets and obligations as of December 31, 2005 and 2004. However, the Companies continue to provide certain health care and life insurance benefits for retired Canadian employees. Substantially all Canadian employees may become eligible for these benefits if they reach retirement age and have ten years of service working for the Company, as more fully defined in the Plan.

The Companies use December 31 as the measurement date for calculating their obligations relating to pension and postretirement benefit plans.

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The projected benefit obligation for pension and other postretirement benefits represents the present value of postretirement benefits deemed earned as of December 31, projected for estimated salary and medical cost rate increases as of an assumed date with respect to retirement, termination, disability, or death. The following table sets forth the change in the projected benefit obligation for pension and postretirement benefits:

	Pension		Postretirement	
	2005	2004	2005	2004
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 106,830	$ 86,456	$ 1,898	$ 2,083
Eligibility costs	3,647	2,880	29	97
Interest costs	6,681	6,014	121	131
Amendments	-	201	-	-
Actuarial gains or losses	17,404	19,021	149	99
Currency exchange rate change	1,288	2,794	66	160
Divestiture	-	(5,395)	-	(552)
Benefits paid	(4,269)	(5,141)	(139)	(120)
Benefit obligation at end of year	$ 131,581	$ 106,830	$ 2,124	$ 1,898
Non-Vested Projected Benefit Obligation	$ -	$ -	$ 841	$ 563
Change in plan assets:				
Fair value of plan assets at beginning of the year	$ 32,340	$ 27,604	$ -	$ -
Actual return on plan assets	3,314	4,344	-	-
Currency exchange rate change	1,109	1,803	-	-
Employer contribution	3,600	3,730	139	120
Benefits paid	(4,269)	(5,141)	(139)	(120)
Fair value of plan assets at end of the year	$ 36,094	$ 32,340	$ -	$ -

The funded status of the plan is a comparison of the benefit obligations to the assets of the plans. The difference between the two represents amounts that have been either recognized as expense in prior periods or amounts that will be recognized as expense in the future. The following table sets forth the funded status of the plans:

Reconciliation of Funded Status:				
Funded status of the plan	$ (95,487)	$ (74,490)	$ (2,124)	$ (1,898)
Unrecognized net gain (loss)	49,747	34,505	(150)	(310)
Unamortized prior service cost	678	758	-	-
Unrecognized net transition obligation (asset)	2,492	2,781	1,053	1,113
Net amount recognized	$ (42,570)	$ (36,446)	$ (1,221)	$ (1,095)

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(dollars in thousands)

	Pension		Postretirement	
	2005	2004	2005	2004
Components of net periodic benefit cost:				
Eligibility costs	$ 3,647	$ 2,880	$ 29	$ 97
Interest costs	6,681	6,014	121	131
Expected return on plan assets	(2,831)	(2,936)	-	-
Amortization of unrecognized:				
Net loss (gain)	2,040	1,480	(22)	(20)
Prior service cost	81	18	-	-
Net transition obligation	80	134	99	102
Total net periodic benefit cost	9,698	7,590	227	310
Settlement / curtailment loss	-	1,897	-	(258)
Total net periodic benefit costs	$ 9,698	$ 9,487	$ 227	$ 52
Amounts recognized in the statutory-basis financial statements consist of:				
Prepaid benefit costs	$ 3,616	$ 1,995	$ -	$ -
Accrued benefit liability	(57,465)	(54,236)	(1,221)	(1,095)
Minimum pension liability	2,129	5,991	-	-
Intangible asset	9,150	9,804	-	-
Net amount recognized	$ (42,570)	$ (36,446)	$ (1,221)	$ (1,095)
Weighted-average assumptions used to determine net periodic costs:				
Discount rate	6.25%	6.50%	6.25%	6.50%
Expected return on plan assets	8.00%	8.50%	-	-
Rate of compensation increase	4.70%	5.10%	-	-

The discount rates used in determining the year-end pension and post-retirement obligations was 5.50% in 2005 and 6.25% in 2004.

The average health care cost trend rates assumed for 2006 is 8.00% graded down to 5.00% in 2009. Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-percentage point increase	1-percentage point decrease
Effect on accumulated postretirement benefit obligation	$ 223	$ (119)
Effect on total of eligibility cost and interest cost components	$ 39	$ (15)

(dollars in thousands)

(b) Defined Contribution Plans
The Companies continues to sponsor various defined contribution savings plans for Canadian and certain U.S. employees. The Companies' expense charged to operations amounted to approximately \$911 and \$1,305 in 2005 and 2004, respectively. The Companies' contribution to the defined contribution plans is based on the employee contribution amounts and profitability.

(c) Holding Company Plans
The Companies' U.S. employees participate in non-contributory defined benefit pension plans and contributory defined contribution pension plans sponsored by LMGI. The Companies have no legal obligation for benefits under these plans subsequent to September 24, 2003. LMGI allocates defined benefit pension amounts to the Companies based on paid amounts. LMGI allocates defined contribution pension and postretirement amounts to the Companies based on Statutory incurred amounts.

LMGI allocated \$165,417 and \$158,079 of defined benefit pension expense to the Companies in 2005 and 2004, respectively. LMGI allocated \$74,351 and \$66,348 of defined contribution pension expense to the Companies in 2005 and 2004, respectively. LMGI allocated \$40,297 and \$45,045 of postretirement expense to the Companies in 2005 and 2004, respectively.

(d) Other Compensation Plans
The Companies provide various performance based incentive compensation plans to employees meeting the participation requirements of the respective plans. Performance compensation is determined in accordance with plan formulas. For the years ended December 31, 2005 and 2004, compensation expense related to the Companies' performance incentive plans was \$331,634 and \$357,883, respectively.

(e) Vested accumulated benefit obligation amounts
The accumulated benefit obligation for pension and other postretirement benefits represents the present value of pension benefits earned as of December 31 based on service and compensation through December 31 of the respective year-end. The accumulated benefit obligation with respect to vested and non-vested employees is as follows:

	Pension Plans		Postretirement Plans	
	2005	2004	2005	2004
Accumulated Benefit Obligation:				
Vested and partially vested employees	$ 93,559	$ 82,757	$ 1,283	$ 1,335
Nonvested employees	-	-	841	563
Total	$ 93,559	$ 82,757	$ 2,124	$ 1,898

(dollars in thousands)

(f) Asset Allocation

The pension plan's weighted-average asset allocation by asset category is as follows:

Asset Category	2005	2004
Equity Investments	76%	100%
Debt Investments	20%	0%
Other	4%	0%
Total	**100%**	**100%**

The Company recognizes that, based on historical data, the asset classes most likely to produce the greatest return in excess of inflation over time are also likely to exhibit the most volatility. Conversely, the asset classes likely to be the least volatile are likely to produce the lowest return over time. Therefore, the investment philosophies and strategies must take into the account both return and risk objectives.

Based on the following considerations, the Company can tolerate a moderate amount of risk while striving to maximize investment returns:

(i) The Company is responsible for financing any unfunded liabilities emerging because of poor investment returns. Therefore, the Company has a direct exposure to risk. While it is important to avoid excessive volatility in investment returns, the Company can tolerate some volatility risk;

(ii) The Company contributes to the Plan in compliance with regulatory requirements and at a level sufficient to finance the defined benefits. The Company will establish these contributions based on the advice of an actuary. However, periodic increases in pension contributions, to finance unfunded liabilities emerging from poorer than expected investment performance, should not significantly affect the Company's overall cash flow. Therefore, the Company can tolerate some volatility of investment returns; and,

(iii) The Plan is managed on a going concern basis, including management of the assets. In the foreseeable future, it is unlikely that there will be any special liquidity demands on the Plan. Thus, shorter-term fluctuations in security values will not have a significant adverse impact on the financial stability of the Plan. Therefore, the Company can tolerate some volatility of investment returns.

Taking into consideration the investment risk and philosophy of the Plan, the following asset mix has been established:

Assets	Minimum %	Target Mix %	Maximum %
Cash and Cash Equivalents	0	0	10
Fixed Income	15	30	40
Equities	45	70	85

(dollars in thousands)

(g) Expected long-term rate of return assumption

The expected long-term rate of return assumption is primarily driven by two factors: (1) the asset allocation targets and (2) the expected long-run returns associated with each asset class. The starting point for generating long-run expected asset class returns for large-cap equities, small-cap equities, private equities and high yield bonds is an analysis of historical asset class returns and risk premiums relative to the 5-year U.S. Treasury. Investment grade bonds and cash are expected to earn returns that are generally consistent with prevailing market yields.

This approach is not entirely formulaic as professional judgment is used to make modest adjustments to these numbers in cases where the Company believes that certain data are at abnormal levels relative to long-run averages.

(h) Expected Future Benefit Payments

The following benefit payments, which reflect expected future service, net of participants' contributions, are as follows:

	Pension	Supplemental Pension	Postretirement Benefits
2006	$ 1,564	$ 2,235	$ 131
2007	1,593	2,175	136
2008	1,609	2,116	143
2009	1,653	2,057	149
2010	1,705	1,993	154
2011-2015	9,702	8,961	845

(i) Expected Company Contributions

The Companies expect to contribute $1,374 to the qualified plan, and directly fund $2,235 to retirees in the supplemental pension plan in 2006. In addition, the Companies expect to directly fund $131 to the postretirement plan in 2006.

(12) Dividend Restrictions

The insurance subsidiaries' ability to pay dividends is restricted under applicable insurance law and regulations. Under the insurance laws of the domiciliary states of the insurance subsidiaries, an insurer may make an ordinary dividend payment if its surplus as regards to policyholders, following such dividend, is reasonable in relation to its outstanding liabilities and adequate to its financial needs. However, no insurer may pay an extraordinary dividend without the approval or non-disapproval of the domiciliary insurance regulatory authority. Under the insurance laws of Massachusetts, the domiciliary state of LMIC, an extraordinary dividend is defined as a dividend whose fair market value, together with other dividends made within the preceding 12 months, exceeds the greater of 10% of the insurer's surplus as regards policyholders as of the preceding December 31, or the insurer's net income for the 12-month period ending on the preceding December 31. Under the insurance laws of Wisconsin, the domiciliary state of EICOW and LMFIC, an extraordinary dividend is defined as a dividend whose fair market value, together with other dividends paid within the preceding 12 months, exceeds the lesser of (a) 10% of the insurer's surplus as regards policyholders as of the preceding December 31, or (b) the greater of (1) the insurer's net income for the preceding calendar year, minus realized capital gains for that calendar year, or (2) the aggregate of the insurer's net income for the three preceding calendar years minus realized capital gains for those calendar years and minus dividends paid within the first two of the preceding three calendar years. Changes in the extraordinary dividend regulation of the domiciliary states of LMIC, LMFIC and EICOW could negatively affect LMGI's ability to pay principal and interest on LMGI's external debt, as could a redomestication, merger or consolidation of LMIC, LMFIC or EICOW to a different domiciliary state. Additionally, in connection with the LMHC's reorganization in 2001 into a mutual holding company structure, the LMHC entered into Keep Well Agreements with the Massachusetts Commissioner of Insurance, LMIC, and certain other affiliates which effectively limit LMIC from paying any dividends to LMGI when the "total adjusted capital" of the respective insurer is below 300% of the "authorized control level," as such terms are defined in the Massachusetts risk-based capital regulations as of June 13, 2001. The Keep Well Agreements will terminate automatically upon the earlier of (i) the date that is five years from the effective date of the respective reorganization (November 28, 2006 as to LMIC), or (ii) the date upon which LMHC, the respective insurer or LMHC Massachusetts Holdings Inc. becomes subject to the public reporting requirements of the Securities and Exchange Commission. The maximum dividend payout in 2006 that may be made prior to regulatory approval is $783,163.

(dollars in thousands)

(13) Commitments and Contingent Liabilities

As a result of purchased annuities with the claimant as payee, the Companies no longer carry reserves of $1,330,402. The Companies are contingently liable should the issuers of the purchased annuities fail to perform under the terms of the annuities. The amount of unrecorded loss contingencies related to the purchased annuities was $1,340,402 as of December 31, 2005.

Purchased structured settlement annuities exceeding one percent of policyholders' surplus as of December 31, 2005 are as follows:

Life Insurance Company and Location	Licensed in Company's State of Domicile (Yes/No)	Statement Value of Annuities
Liberty Life Assurance Company of Boston Boston, Massachusetts	Yes	$ 543,400
The Prudential Insurance Company of America Newark, New Jersey	Yes	$ 536,165
Nationwide Life Insurance Company Columbus, Ohio	Yes	$ 165,494

The Companies accrued a liability for guaranty funds and other assessments of $296,304 and $248,422 as of December 31, 2005 and 2004, respectively. Liabilities for guaranty funds and other insurance-related assessments are not discounted. As of December 31, 2005 and 2004, a receivable for future premium tax credits related to these assessments was $56,677 and $56,281, respectively. This represents management's best estimate of the guaranty fund and other assessment liability. The related asset is limited to the amount that is determined based on future premium collections or

LIBERTY MUTUAL INSURANCE COMPANY POOL

Notes to Combined Statutory Basis Financial Statements

(dollars in thousands)

policy surcharges from policies in force. Current assessments are expected to be paid out over the next five years; while premium tax offsets are expected to be realized within one year.

The Companies have reinsurance funds held balances of approximately $1,605,376 that are subject to ratings triggers whereby if any of the Companies' insurance financial strength ratings (with the three major rating agencies) fall below the A- (or equivalent) categories, the funds may be required to be placed in trust and invested in assets acceptable to the Companies. The Companies have no additional material ratings triggers.

At December 31, 2005, the Companies had commitments to purchase various mortgage-backed securities settling in 2006, at a cost of $102,909 with a fair market value of $103,767, which are included as fixed maturities in the combined statutory-basis balance sheets. Additionally, at December 31, 2005, the Companies had unfunded capital commitments for private equity investments of $389,051.

The Companies lease certain office facilities and equipment from others under operating leases expiring in various years through 2101. Rental expense amounted to $152,041 and $148,738 for the years ended December 31, 2005 and 2004, respectively. It is expected that as leases expire they will be replaced. Future minimum rental payments under non-cancelable leases with terms in excess of one year are estimated to be:

Year	**Operating Arrangements**
2006	$ 105,922
2007	85,925
2008	64,413
2009	48,072
2010	34,307
2011 and thereafter	159,187
Total	$ 497,826

LIBERTY MUTUAL INSURANCE COMPANY POOL

Notes to Combined Statutory Basis Financial Statements

(dollars in thousands)

The Companies have entered into sale-leaseback arrangements with unrelated parties on certain property, plant and equipment ("PP&E"). Equipment agreements are under thirteen-month lease periods with monthly renewal options to a maximum of sixty months. The Companies have a purchase option for all PP&E at the end of each respective lease. The Companies sold non-admitted assets with book values of $22,319 and $33,553 in 2005 and 2004, respectively. The Companies received cash in the amounts of $24,336 and $36,963 in 2005 and 2004, respectively. The transactions resulted in deferred gains of $2,017 and $3,410 in 2005 and 2004, respectively. The following is a schedule of the Companies' minimum lease obligations:

Year	Sale Lease-back
2006	$ 51,765
2007	32,272
2008	29,751
2009	24,636
2010	15,689
2011 and thereafter	-
Total	$ 154,113

The Companies guarantee $27,000 of medium term notes payable, which are obligations of its parent company, LMGI.

The Companies guarantee the performance of the obligations of LMGI under a $600,000 commercial paper program. Commercial paper outstanding as of December 31, 2005 was $100,000.

The Companies guarantee the performance of the obligations of LMGI under a $750,000 five-year revolving credit agreement that LMGI entered into on July 25, 2005 to replace its previous $450,000 revolving credit agreement. This revolving line of credit serves as back-up facility for the commercial paper program. The amount outstanding as of December 31, 2005 was $0.

The Companies guarantee the performance of Inversora Segucar, C.A., under a $25,000 liquidity facility program. The amount outstanding as of December 31, 2005 was $11,113.

The Companies are contingently liable for the performance of Liberty Corporate Capital Limited's obligations under standby letters of credit in the aggregate amount of $818,425 of which $663,355 has been collateralized. As of December 31, 2005, there have been no drawings under the standby letters of credit.

The Companies guarantee the performance of Liberty International Iberia, S.L., S.C.S under a credit agreement in the amount of the greater of €85,000 or $100,000. As of December 31, 2005 there have been no drawings under the credit agreement.

The Companies guarantee the obligations of Liberty Information Technology Ltd. for a $43,075 real estate lease located in Belfast, Northern Ireland.

The Companies guarantee obligations of Liberty Life Assurance Company of Boston and Liberty Mutual Insurance Europe Ltd. on policies and contracts issued.

The Companies guarantee obligations of Liberty Re (Bermuda) Limited under certain reinsurance policies issued.

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 results of operations or the financial position of the Companies.

The Companies have been in various insurance coverage disputes with Armstrong World Industries ("Armstrong") for over twenty years relating to asbestos liabilities and insurance covering the period 1973 to 1981. The Companies have prevailed in a favorable arbitration ruling before an appellate panel regarding Armstrong's insurance coverage in July 2003. Armstrong filed a Chapter 11 Bankruptcy petition in the United States Bankruptcy Court for the District of Delaware in December 2000 and is still operating under the protection of Chapter 11. A declaratory judgment action, filed by Armstrong in 2002, is pending in the United States District Court for the Eastern District of Pennsylvania seeking coverage for asbestos claims under insurance policies issued to Armstrong during the period of 1973 to 1981, including, but not limited to, damages and a declaration regarding the availability, applicability and scope of alleged non-product coverage not subject to the aggregate limits of the policies. Armstrong contends that a significant portion of its asbestos liability arises from operations that would entitle Armstrong to insurance coverage under the disputed policies without regard to the aggregate limit of liability. The Pennsylvania action is currently in the initial pleading stages and inactive by agreement of the parties. In February 2004 Armstrong filed, in the same Pennsylvania District Court, a Motion to Vacate the appellate arbitration award that was favorable to the Companies. In turn, the Companies filed a Motion to Confirm the Appellate Panel's Award. The Companies intend to vigorously defend its position. Management believes that the ultimate liability, if any, to Armstrong will not be resolved for at least one year and very likely may not be known for several years. In the opinion of management, the outcome of these pending matters is difficult to predict and in the event of an adverse outcome, could have a material adverse effect on the Companies' results of operations, financial condition and liquidity.

(14) Subsequent Events

On January 9, 2006, LMIC and LMFIC acquired a commercial office building adjacent to the Company's headquarters for $482,000. The Companies currently occupy approximately 16% of the office space.

Report of Independent Auditors on
Other Financial Information

The Boards of Directors
Liberty Mutual Holding Company Inc.

Our audits were conducted for the purpose of forming an opinion on the combined statutory-basis financial statements of Liberty Mutual Insurance Company Pool taken as a whole. The accompanying supplemental investment disclosures are presented to comply with the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual and are not a required part of the combined statutory-basis financial statements. Additional disclosures of the combining statutory-basis balance sheets of the Liberty Mutual Insurance Company Pool as of December 31, 2005 and combining statutory-basis statements of income and changes in statutory surplus for the year then ended are presented for purpose of additional analysis and are not a required part of the combined statutory-basis financial statements. Such information has been subjected to auditing procedures applied in our audit of the combined statutory-basis financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined statutory-basis financial statements taken as a whole.

This report is intended solely for the information and use of the Liberty Mutual Insurance Company Pool and state insurance departments to whose jurisdiction the Liberty Mutual Insurance Company Pool are subject and is not intended to be used by anyone other than these specified parties.

May 12, 2006

LIBERTY MUTUAL INSURANCE COMPANY POOL

Supplemental Schedule of Selected Financial Data

December 31, 2005

(dollars in thousands)

Investment Risks Interrogatories

1. The Liberty Mutual Insurance Company Pool ("the Companies") total admitted assets as reported on page two of the Companies' Annual Statements for the year ended December 31, 2005 is $35,815,513.

2. Following are the 10 largest exposures to a single issuer/borrower/investment, by investment category excluding (i) U.S. government, U.S. government agency securities and those U.S. government money market funds listed in the Appendix to the *SVO Purposes and Procedures Manual* as exempt, (ii) property occupied by the Companies and (iii) policy loans.

Name of Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
a. Govt of Canada	Bonds	$246,931	0.69%
b. Citigroup, Inc.	Bonds & Stocks	148,675	0.42%
c. Tacoma Electric	Bonds	145,404	0.41%
d. Comm of Massachusetts	Bonds	133,517	0.37%
e. General Elec Cap Corp	Bonds	129,047	0.36%
f. City of San Antonio	Bonds	127,848	0.36%
g. Wells Fargo	Bonds & Stocks	126,552	0.35%
h. Bellsouth Corp	Bonds	117,279	0.33%
i. American Intl Group	Bonds	116,681	0.33%
j. Procter & Gamble Co	Bonds & Stocks	111,873	0.31%

3. The Companies' total admitted assets held in bonds, preferred stocks and short-term investments by NAIC rating at December 31, 2005, are:

Bonds	Amount	Percentage of Total Admitted Assets	Preferred Stocks	Amount	Percentage of Total Admitted Assets
NAIC-1	$ 19,251,614	53.75%	P/RP-1	$870	0.00%
NAIC-2	1,717,990	4.80%	P/RP-2	1,511	0.00%
NAIC-3	711,227	1.99%	P/RP-3	10,138	0.03%
NAIC-4	667,985	1.87%	P/RP-4	-	0.00%
NAIC-5	52,776	0.15%	P/RP-5	52,694	0.15%
NAIC-6	24,289	0.07%	P/RP-6	-	0.00%
	$ 22,425,881			$65,213	

4. The Companies' total admitted assets held in foreign investments (regardless of whether there is any foreign currency exposure) and unhedged foreign currency exposure (defined as the statement value of investments denominated in foreign currencies which are not hedged by financial instruments qualifying for hedge accounting as specified in SSAP No. 86—Accounting for *Derivative Instruments and Hedging, Income Generation, and Replication (Synthetic Asset) Transactions*), including (i) foreign-currency-denominated investments of $399,979 supporting insurance liabilities denominated in that same foreign currency of

(dollars in thousands)

$246,277 and excluding (ii) Canadian investments and currency exposure of $719,520 as of December 31, 2005, are $776,598. Foreign investments are less than 2.5% of the Companies' total admitted assets.

5. The Companies' total admitted assets held in Canadian investments and unhedged Canadian currency exposure, including Canadian-currency-denominated investments of $596,051 supporting Canadian-denominated insurance liabilities of $282,322 at December 31, 2005, are $719,520.

Aggregate Canadian investment exposure:

	Amount	Percentage of Total Admitted Assets
a. Total admitted assets held in Canadian investments	$719,520	2.01%
b. Canadian-currency-denominated investments	596,051	1.66%
c. Canadian-denominated insurance liabilities	282,322	0.79%
d. Unhedged Canadian currency exposure	596,051	1.66%

6. The Companies did not hold any investments with contractual sales restrictions (defined as investments having restrictions that prevent investments from being sold within 90 days).

7. The Companies' admitted assets held in the largest 10 equity interests (including investments in the shares of mutual funds, preferred stocks, publicly traded equity securities, and other equity securities, and excluding money market and bond mutual funds listed in the Appendix to the SVO Practices and Procedures Manual as exempt or Class 1) at December 31, 2005, are:

Name of Issuer	Amount	Percentage of Total Admitted Assets
a. Standard Liberty LLC	$ 107,655	0.30%
b. LMIA High Yield Fund	69,236	0.19%
c. Massachusetts Property & Casualty LP	56,648	0.16%
d. Thomas H Lee Fund V LP	47,327	0.13%
e. Summit Ventures Fund VI LP	37,667	0.11%
f. General Electric Co	33,082	0.09%
g. Exxon Mobil Corp	31,645	0.09%
h. Liberty All-Star Equity Fund	29,297	0.08%
i. Microsoft Corp	23,440	0.07%
j. Carlyle Partners III LP	22,437	0.06%

8. The Companies' assets held in nonaffiliated, privately placed equities (included in other equity securities) and excluding securities eligible for sale under (i) Securities and Exchange Commission (SEC) Rule 144a or (ii) SEC Rule 144 without volume restrictions as of December 31, 2005, is less than 2.5% of the Companies' total admitted assets.

9. The Companies' total admitted assets held in general partnership interests (included in other equity securities) at December 31, 2005, are less than 2.5% of the Companies' total admitted assets.

10. Mortgage loans are less than 2.5% of the Companies' total admitted assets as of December 31, 2005.

LIBERTY MUTUAL INSURANCE COMPANY POOL

Supplemental Schedule of Selected Financial Data

December 31, 2005

(dollars in thousands)

11. Real Estate holdings are less than 2.5% of the Companies' total admitted assets as of December 31, 2005.

12. The Companies' total admitted assets are subject to the following types of agreements as of:

	December 31, 2005		March 31, 2005	June 30, 2005	September 30, 2005
	Amount	Percentage of Total Admitted Assets	Amount	Amount	Amount
a. Securities lending (do not include assets held as collateral for such transactions)	$199,579	0.56%	$84,418	$67,017	$215,478

13. The Companies did not hold any warrants not attached to other financial instruments, options, caps, and floors at December 31, 2005.

14. The Companies did not hold any potential exposure for collars, swaps, and forwards at December 31, 2005.

15. The Companies did not have potential exposure for futures contracts at December 31, 2005.

16. The Companies did not have investments included in the write-ins for invested assets category at December 31, 2005.

LIBERTY MUTUAL INSURANCE COMPANY POOL

Supplemental Schedule of Selected Financial Data

December 31, 2005

(dollars in thousands)

Summary Investment Schedule

Investment Categories	Gross Investment Holdings*	Percentage of Gross Investment Holdings	Admitted Assets as Reported in the Annual Statement	Percentage of Admitted Invested Assets
Bonds:				
US Treasury Securities	$ 1,991,961	6.76%	$ 1,991,961	6.76%
US government agency and corporate obligations (excluding mortgage-backed securities)				
Issued by US Government Agencies	1,245,520	4.22	1,245,520	4.22
Issued by US Government-sponsored agencies	749,672	2.54	749,672	2.54
Foreign Government (including Canada, excluding mortgage- backed securities)	535,265	1.81	535,265	1.81
Securities Issued by States, Territories and Possessions and Political Subdivisions in the U.S.:				
State, territory and possessions - general obligations	700,760	2.37	700,760	2.37
Political subdivisions of states, territories and possessions – general obligations	470,984	1.60	470,984	1.60
Revenue and assessment obligations	1,805,831	6.12	1,805,831	6.12
Industrial development and similar obligations	35,433	0.12	35,433	0.12
Mortgage-backed securities (includes residential and commercial MBS):				
Pass-through securities:				
Issued or Guaranteed by GNMA	624,451	2.11	624,451	2.11
Issued or Guaranteed by FNMA and FHLMC	3,584,829	12.14	3,584,829	12.14
CMOs and REMICs				
Issued or Guaranteed by GNMA, FNMA, FHLMC or VA	2,057,424	6.97	2,057,424	6.97
Privately issued and collateralized by MBS issued or guaranteed by GNMA, FNMA, or FHLMC or VA	1,552	0.01	1,552	0.01
All Other	809,971	2.74	809,971	2.74
Other debt and other fixed income securities (excluding short-term):				
Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	6,062,422	20.53	6,062,422	20.53
Unaffiliated foreign securities	573,908	1.94	573,908	1.94
Investment in mutual funds				
Equity interests	98,532	0.33	98,532	0.33
Preferred stocks:				
Affiliated	131	0.00	131	0.00
Unaffiliated	65,082	0.22	65,082	0.22
Publicly traded equity securities (excluding preferred stocks)				
Unaffiliated	1,327,046	4.49	1,327,046	4.49
Other equity securities:				
Affiliated	2,554,678	8.66	2,554,678	8.66
Unaffiliated	43	0.00	43	0.00
Mortgage Loans on Real Estate				
Commercial Loans	39,500	0.13	39,500	0.13
Real Estate Investments:				
Property occupied by Companies	333,217	1.13	333,217	1.13
Property held for production of income	1,199	0.00	1,199	0.00
Receivables for securities	36,438	0.12	36,438	0.12
Cash and short term investments	1,399,710	4.74	1,399,710	4.74
Other Invested Assets	2,422,638	8.20	2,419,970	8.20
Total Cash and Invested Assets	$29,528,197	100.00%	$29,525,529	100.00%

LIBERTY MUTUAL INSURANCE COMPANY POOL

Supplemental Schedule of Selected Financial Data

December 31, 2005

(dollars in thousands)

* Gross investment holdings as valued in compliance with NAIC Accounting Practices & Procedures Manual.

Liberty Mutual Insurance Company Pool

Note to the Supplemental Schedule of Selected Financial Data

December 31, 2005

Basis of Presentation

The accompanying supplemental schedule of selected financial data presents selected combined investment statutory financial data as of December 31, 2005, and for the year then ended for purposes of complying with the National Association of Insurance Commissioners' (NAIC) Accounting Practices and Procedures Manual and agrees to or is included in the amounts reported in the Liberty Mutual Insurance Company Pool members' 2005 Statutory Annual Statements as filed with the applicable domiciliary state insurance departments.

LIBERTY MUTUAL INSURANCE COMPANY POOL
Combined Statutory Basis Balance Sheet
As of December 31, 2005
(dollars in thousands)

	Casualty	Fire	LIC	LICe (A)	LMC	FST	Liberty (ex LIC) Eliminations (A)	EICOW	EICOWe (A)	WGIC	WUIC	WBIC	Wausau Stock Eliminations (A)
Admitted Assets													
Investments:													
Fixed maturities	$ 12,556,563	$ 2,106,523	$ 1,177,460	$ -	$ 47,702	$ 32,227	$ (14,065)	$ 3,644,056	$ -	$ 114,962	$ 167,504	$ 106,295	$ -
Common and preferred stocks	1,248,172	170,389	67,277	-	691	1,268	-	2,904	-	-	(0)	0	-
Investments in affiliates	5,547,294	46,707	-	(290,797)	-	-	(88,572)	(0)	-	-	-	-	(204,211)
Cash and short-term investments	1,082,173	53,796	56,532	-	2,527	2,593	-	43,942	(0)	6,941	9,144	6,983	-
Companies occupied properties	311,129	-	-	-	-	-	-	22,089	-	-	-	-	-
Other invested assets	755,333	97,283	35,419	-	(1)	-	(1)	73,590	-	-	-	-	-
Total cash and invested assets	21,500,664	2,474,698	1,336,688	(290,797)	50,919	36,088	(102,638)	3,786,581	(0)	121,903	176,648	113,278	(204,211)
Premiums receivable, net	2,480,912	347,322	208,393	-	6,946	3,473	-	590,120	-	13,893	13,893	13,893	-
Deferred tax asset, net	585,268	87,258	38,212	-	1,645	822	-	102,800	-	3,307	3,290	3,309	-
Federal income taxes receivable	-	-	-	-	-	-	-	-	-	-	-	-	-
Reinsurance recoverable on paid losses, net	399,753	-	-	-	-	-	-	56,402	-	-	-	-	-
Receivable from affiliates	284,222	(15,353)	(2,784)	-	(143)	245	-	(2,786)	-	(162)	(620)	(206)	-
Funds held by affiliates and other reinsurers	24,877	-	-	-	-	-	(0)	28	-	-	-	-	-
Other admitted assets	677,846	81,317	48,302	-	1,753	1,032	-	135,765	-	3,567	4,234	3,608	-
Total admitted assets	$ 25,953,542	$ 2,975,242	$ 1,628,811	$ (290,797)	$ 61,120	$ 41,660	$ (102,638)	$ 4,668,910	$ (0)	$ 142,508	$ 197,445	$ 133,882	$ (204,211)
Liabilities and Surplus													
Liabilities:													
Unpaid claims	$ 9,447,746	$ 1,420,714	$ 852,428	$ -	$ 28,414	$ 14,207	$ -	$ 2,273,142	$ -	$ 56,829	$ 56,829	$ 56,829	$ -
Unpaid claim adjustment expenses	1,934,981	290,975	174,585	-	5,819	2,910	-	465,559	-	11,639	11,639	11,639	-
Unearned premiums	2,792,535	419,930	251,958	-	8,399	4,199	-	671,888	-	16,797	16,797	16,797	-
Other liabilities and accured expenses	942,288	(12,997)	42,094	(15,602)	(332)	(249)	-	47,076	-	2,542	5,791	2,780	-
Funds held under reinsurance contracts	2,150,117	-	-	-	-	-	(0)	35,505	-	-	-	-	-
Ceded reinsurance premiums payable	617,617	-	-	-	-	-	-	61,940	-	-	-	-	-
Taxes, licenses and fees accrued	199,307	29,971	17,983	-	599	300	-	47,953	-	1,199	1,199	1,199	-
Federal income taxes accrued	(58,066)	(3,674)	(1,243)	-	(314)	(86)	-	(5,374)	-	(318)	(511)	(95)	-
Payable to affiliates	-	-	-	-	-	-	-	-	-	-	-	-	-
Policyholder dividends accrued	2,321	349	209	-	7	3	-	559	-	14	14	14	-
Total liabilities	18,028,846	2,145,268	1,338,014	(15,602)	42,592	21,284	(0)	3,598,248	(0)	88,702	91,758	89,163	-
Surplus:													
Surplus notes	1,012,986	-	-	-	-	-	-	-	-	-	-	-	-
Special and other surplus funds	782,472	118,727	70,486	-	2,350	1,175	-	187,963	-	4,699	4,699	4,699	-
Contributed capital	2,279,797	185,000	159,663	(159,663)	11,000	11,000	(58,500)	345,000	-	39,000	81,860	53,800	(174,660)
Unassigned surplus	3,849,441	526,247	60,648	(115,532)	5,178	8,201	(44,138)	537,699	-	10,107	19,128	(13,780)	(29,551)
Total surplus	7,924,696	829,974	290,797	(275,195)	18,528	20,376	(102,638)	1,070,662	-	53,806	105,687	44,719	(204,211)
Total liabilities and surplus	$ 25,953,542	$ 2,975,242	$ 1,628,811	$ (290,797)	$ 61,120	$ 41,660	$ (102,638)	$ 4,668,910	$ (0)	$ 142,508	$ 197,445	$ 133,882	$ (204,211)

See accompanying notes to combined statutory basis financial statements.

(A) Eliminations represent intercompany transactions and balances for each account.

LIBERTY MUTUAL INSURANCE COMPANY POOL
Combined Statutory Basis Balance Sheet
As of December 31, 2005
(dollars in thousands)

	LICA	LSI	LPIC	(A) LPICe	LLOT	(A) LLOTe	Liberty County Mutual Insurance Company - Liberty	Liberty County Mutual Insurance Company - RAM	LCMIC - Pre Acq	(A) Liberty County Elimination Co.	BEIC	(A) BEIE	BCIC
Admitted Assets													
Investments:													
Fixed maturities	$ 17,666	$ 37,063	$ 20,397	$ -	$ 4,509	$ -	$ 13,927	$ -	$ -	$ -	$ 155,457	$ -	$ 38,260
Common and preferred stocks	-	-	-	-	-	-	-	-	-	-	-	-	-
Investments in affiliates	-	-	-	(25,786)	-	(5,605)	-	-	-	(10,000)	28,472	(85,813)	-
Cash and short-term investments	834	7,936	1,378	-	1,100	-	468	-	-	-	(1,261)	13,403	7,536
Companies occupied properties	-	-	-	-	-	-	-	-	-	-	-	-	-
Other invested assets	1	-	-	-	-	-	-	-	-	-	48	-	18
Total cash and invested assets	18,501	44,999	21,775	(25,786)	5,609	(5,605)	14,395	-	-	(10,000)	182,716	(72,410)	45,814
Premiums receivable, net	-	0	-	-	-	-	0	-	244	-	34,208	-	9,720
Deferred tax asset, net	(9)	-	(60)	-	-	-	(0)	-	-	-	1,030	-	672
Federal income taxes receivable	-	-	-	-	-	-	-	-	-	-	-	-	-
Reinsurance recoverable on paid losses, net	-	13,322	31	-	-	-	-	549	143	-	1,470	-	164
Receivable from affiliates	598	(127)	(640)	-	(35)	-	(3,420)	(74)	579	-	(66,881)	-	10,867
Funds held by affiliates and other reinsurers	-	-	-	-	-	-	-	-	-	-	-	-	-
Other admitted assets	233	436	297	4,732	59	-	87	-	54	-	1,433	-	431
Total admitted assets	$ 19,323	$ 58,630	$ 21,403	$ (21,054)	$ 5,633	$ (5,605)	$ 11,062	$ 475	$ 1,020	$ (10,000)	$ 153,976	$ (72,410)	$ 67,668
Liabilities and Surplus													
Liabilities:													
Unpaid claims	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (0)	$ -	$ (0)
Unpaid claim adjustment expenses	-	(0)	-	-	-	-	-	-	-	-	-	-	0
Unearned premiums	-	(0)	-	-	-	-	-	-	-	-	(0)	-	-
Other liabilities and accured expenses	(1)	9,097	(1)	-	-	-	-	21	143	-	18,668	13,403	4,200
Funds held under reinsurance contracts	-	1,313	-	-	-	-	-	-	-	-	-	-	-
Ceded reinsurance premiums payable	-	16,915	-	-	-	-	-	454	239	-	5,176	-	11
Taxes, licenses and fees accrued	-	0	-	-	-	-	-	-	292	-	43,359	-	35,171
Federal income taxes accrued	84	877	350	-	28	-	176	-	-	-	959	-	302
Payable to affiliates	-	-	-	-	-	-	-	-	-	-	-	-	-
Policyholder dividends accrued	-	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	83	28,202	349	-	28	-	176	475	674	-	68,162	13,403	39,684
Surplus:													
Surplus notes	-	-	-	-	-	-	10,000	-	-	(10,000)	-	-	-
Special and other surplus funds	-	-	-	-	2,000	(2,000)	-	-	-	-	-	-	-
Contributed capital	10,500	26,000	21,054	(21,054)	3,000	(3,000)	-	-	-	-	43,324	(43,324)	22,500
Unassigned surplus	8,740	4,428	-	-	605	(605)	886	-	346	-	42,490	(42,489)	5,484
Total surplus	19,240	30,428	21,054	(21,054)	5,605	(5,605)	10,886	-	346	(10,000)	85,814	(85,813)	27,984
Total liabilities and surplus	$ 19,323	$ 58,630	$ 21,403	$ (21,054)	$ 5,633	$ (5,605)	$ 11,062	$ 475	$ 1,020	$ (10,000)	$ 153,976	$ (72,410)	$ 67,668

See accompanying notes to combined statutory basis financial statements.

(A) Eliminations represent intercompany transactions and balances for each account.

LIBERTY MUTUAL INSURANCE COMPANY POOL
Combined Statutory Basis Balance Sheet
As of December 31, 2005
(dollars in thousands)

	BCIE (A)	Prudential Property & Casualty (PRUPAC)	Prudential Property & Casualty Eliminations (A)	Prudential Commercial	Prudential Commercial Eliminations (A)	Prudential General	Prudential General Eliminations (A)	LIU	LIU Eliminations (A)	Reclasses	Adjustments	LM Pool
Admitted Assets												
Investments:												
Fixed maturities	$ -	$ 902,990	$ -	$ 14,588	$ -	$ 15,360	$ -	$ 90,477	$ -			$ 21,249,921
Common and preferred stocks	-	2	-	-	-	-	-	-	-		1	1,490,704
Investments in affiliates	(27,984)	-	(701,369)	-	(15,733)	-	(14,826)	-	(63,003)		(2)	4,088,772
Cash and short-term investments	3,916	60,514	-	3,285	-	4,071	-	31,900	-		(1)	1,399,710
Companies occupied properties	-	-	-	-	-	-	-	-	-		(1)	333,217
Other invested assets	-	421	-	50	-	-	-	1,042	-		2	963,205
Total cash and invested assets	(24,068)	963,927	(701,369)	17,923	(15,733)	19,431	(14,826)	123,419	(63,003)	-	(1)	29,525,529
Premiums receivable, net	-	279	-	-	-	-	-	0	-		1	3,723,297
Deferred tax asset, net	-	6,101	-	(5)	-	-	-	79	-		(2)	833,717
Federal income taxes receivable	-	-	-	-	-	-	-	-	-	66,289		66,289
Reinsurance recoverable on paid losses, net	-	14,788	-	26	-	399	-	10,790	-			497,837
Receivable from affiliates	-	(12,284)	-	4,719	-	1,337	-	(30,645)	-		(1)	166,406
Funds held by affiliates and other reinsurers	-	264	-	-	-	-	-	-	-			25,169
Other admitted assets	-	10,631	-	206	-	95	-	1,147	-		4	977,269
Total admitted assets	$ (24,068)	$ 983,706	$ (701,369)	$ 22,869	$ (15,733)	$ 21,262	$ (14,826)	$ 104,790	$ (63,003)	$ 66,289	$ 1	$ 35,815,513
Liabilities and Surplus												
Liabilities:												
Unpaid claims	$ -	$ 164,544	$ -	$ (0)	$ -	$ 757	$ -	$ 0	$ -			$ 14,372,439
Unpaid claim adjustment expenses	-	18,456	-	-	-	-	-	(0)	-			2,928,202
Unearned premiums	-	-	-	-	-	-	-	0	-		1	4,199,301
Other liabilities and accured expenses	3,916	68,780	-	2,487	-	3,241	-	18,137	-		(1)	1,155,481
Funds held under reinsurance contracts	-	31,051	-	4,613	-	2,687	-	63	-		2	2,225,351
Ceded reinsurance premiums payable	-	(709)	-	0	-	26	-	22,948	-		(2)	724,615
Taxes, licenses and fees accrued	-	(0)	-	(0)	-	(0)	-	-	-		(1)	378,531
Federal income taxes accrued	-	215	-	36	-	(274)	-	639	-	66,289		-
Payable to affiliates	-	-	-	-	-	-	-	-	-			-
Policyholder dividends accrued	-	-	-	-	-	-	-	-	-		1	3,491
Total liabilities	3,916	282,337	-	7,136	-	6,437	-	41,787	-	66,289	-	25,987,411
Surplus:												
Surplus notes	-	-	-	-	-	-	-	-	-	-		1,012,986
Special and other surplus funds	-	-	-	-	-	-	-	-	-		1	1,177,271
Contributed capital	(22,500)	686,325	(564,600)	7,000	(18,100)	8,000	(17,700)	63,530	(63,530)	(100,925)		2,809,797
Unassigned surplus	(5,484)	15,044	(136,769)	8,733	2,367	6,825	2,874	(527)	527	100,925		4,828,048
Total surplus	(27,984)	701,369	(701,369)	15,733	(15,733)	14,825	(14,826)	63,003	(63,003)	-	1	9,828,102
Total liabilities and surplus	$ (24,068)	$ 983,706	$ (701,369)	$ 22,869	$ (15,733)	$ 21,262	$ (14,826)	$ 104,790	$ (63,003)	$ 66,289	$ 1	$ 35,815,513

See accompanying notes to combined statutory basis financial statements.

(A) Eliminations represent intercompany transactions and balances for each account.

LIBERTY MUTUAL INSURANCE COMPANY POOL
Combined Statutory Statements of Income
Year ended December 31, 2005
(dollars in thousands)

	Casualty	Fire	LIC	(A) LICe	LMC	FST	(A) Liberty (ex LIC) Eliminations	EICOW	(A) EICOWe	WGIC	WUIC
Premiums earned	$ 6,889,135	$ 1,035,969	$ 621,581	$ -	$ 20,719	$ 10,360	$ -	$ 1,657,551	$ -	$ 41,439	$ 41,439
Claims	4,393,736	660,717	396,431	-	13,214	6,607	-	1,057,150	-	26,429	26,429
Claim adjustment expenses	1,298,535	195,271	117,163	-	3,905	1,953	-	312,433	-	7,811	7,811
Underwriting and other expenses	1,417,982	213,433	128,060	-	4,269	2,134	-	341,492	-	8,537	8,537
Premium and other taxes and assessments	298,907	44,950	26,958	-	899	450	-	71,891	-	1,797	1,797
Total underwriting expenses	7,409,160	1,114,371	668,612	-	22,287	11,144	-	1,782,966	-	44,574	44,574
Underwriting loss before dividends	(520,025)	(78,402)	(47,031)	-	(1,568)	(784)	-	(125,415)	-	(3,135)	(3,135)
Policyholder dividends	24,012	3,611	2,166	-	72	36	-	5,777	-	144	144
Underwriting loss	(544,037)	(82,013)	(49,197)	-	(1,640)	(820)	-	(131,192)	-	(3,279)	(3,279)
Net investment income	895,504	115,734	64,585	-	2,591	1,807	-	184,389	5,801	6,093	8,910
Realized investment gains, net	304,156	26,980	8,454	-	231	182	4,042	28,365	-	415	772
Other loss, net	(79,276)	(11,248)	(6,531)	-	(220)	(125)	-	(19,215)	-	(434)	(479)
Income before income taxes	576,347	49,453	17,311	-	962	1,044	4,042	62,347	5,801	2,795	5,924
Federal and foreign income taxes	(7,793)	27,366	9,658	-	300	422	-	3,117	-	871	431
Net income	$ 584,140	$ 22,087	$ 7,653	$ -	$ 662	$ 622	$ 4,042	$ 59,230	$ 5,801	$ 1,924	$ 5,493

See accompanying notes to combined statutory basis financial statements.

(A) Eliminations represent intercompany transactions and balances for each account.

LIBERTY MUTUAL INSURANCE COMPANY POOL
Combined Statutory Statements of Income
Year ended December 31, 2005
(dollars in thousands)

	WBIC	Wausau Stock Eliminations (A)	LICA	LSI	LPIC	LPICe (A)	LLOT	LLOTe (A)	Liberty County Mutual Insurance Company - Liberty	Liberty County Mutual Insurance Company - RAM	LCMIC - Pre Acq
Premiums earned	$ 41,439	$ -	$ -	$ (0)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Claims	26,429	-	-	0	-	-	0	-	-	-	-
Claim adjustment expenses	7,811	-	-	0	0	-	(0)	-	0	0	(0)
Underwriting and other expenses	8,537	-	-	(0)	-	-	0	-	-	-	(76)
Premium and other taxes and assessments	1,797	-	-	-	-	-	-	-	-	-	-
Total underwriting expenses	44,574	-	-	0	0	-	0	-	0	0	(76)
Underwriting loss before dividends	(3,135)	-	-	-	-	-	-	-	-	-	76
Policyholder dividends	144	-	-	-	-	-	-	-	-	-	-
Underwriting loss	(3,279)	-	-	-	-	-	-	-	-	-	76
Net investment income	5,767	-	896	2,331	2,358	(8,493)	161	-	493	-	-
Realized investment gains, net	433	-	22	208	475	-	-	-	-	-	-
Other loss, net	(476)	-	-	774	-	-	-	-	-	-	-
Income before income taxes	2,445	-	918	3,313	2,833	(8,493)	161	-	493	(0)	76
Federal and foreign income taxes	358	-	316	1,162	997	-	66	-	188	-	-
Net income	$ 2,087	$ -	$ 602	$ 2,151	$ 1,836	$ (8,493)	$ 95	$ -	$ 305	$ 0	$ 76

See accompanying notes to combined statutory basis financial statements.

(A) Eliminations represent intercompany transactions and balances for each account.

LIBERTY MUTUAL INSURANCE COMPANY POOL
Combined Statutory Statements of Income
Year ended December 31, 2005
(dollars in thousands)

	(A)		(A)		(A)		(A)		(A)		(A)
	Liberty County Elimination Co.	BEIC	BEIE	BCIC	BCIE	Prudential Property & Casualty (PRUPAC)	Prudential Property & Casualty Eliminations	Prudential Commercial	Prudential Commercial Eliminations	Prudential General	Prudential General Eliminations
Premiums earned	$ -	$ 0	$ -	$ -	$ -	$ 1	$ -	$ (0)	$ -	$ 0	$ -
Claims	-	(0)	-	0	-	4,790	-	(0)	-	406	-
Claim adjustment expenses	-	(0)	-	0	-	(0)	-	(0)	-	0	-
Underwriting and other expenses	-	(33,161)	-	(28,679)	-	244	-	0	-	(0)	-
Premium and other taxes and assessments	-	33,161	-	28,679	-	-	-	-	-	-	-
Total underwriting expenses	-	(0)	-	0	-	5,034	-	0	-	406	-
Underwriting loss before dividends	-	-	-	-	-	(5,033)	-	-	-	(406)	-
Policyholder dividends	-	-	-	-	-	-	-	-	-	-	-
Underwriting loss	-	-	-	-	-	(5,033)	-	-	-	(406)	-
Net investment income	-	7,558	-	2,080	-	35,669	-	730	-	952	-
Realized investment gains, net	-	976	-	583	-	2,733	-	0	-	-	-
Other loss, net	-	-	-	-	-	(17)	-	-	-	(1)	-
Income before income taxes	-	8,534	-	2,663	-	33,352	-	730	-	545	-
Federal and foreign income taxes	-	2,999	-	954	-	4,293	-	159	-	89	-
Net income	$ -	$ 5,535	$ -	$ 1,709	$ -	$ 29,059	$ -	$ 571	$ -	$ 456	$ -

See accompanying notes to combined statutory basis financial statements.

(A) Eliminations represent intercompany transactions and balances for each account.

LIBERTY MUTUAL INSURANCE COMPANY POOL
Combined Statutory Statements of Income
Year ended December 31, 2005
(dollars in thousands)

	LIU	LIU Eliminations (A)	Reclasses	Adjustments	LM Pool
Premiums earned	$ -	$ -		$ (1)	$ 10,359,632
Claims	-	-			6,612,338
Claim adjustment expenses	0	-			1,952,693
Underwriting and other expenses	(0)	-			2,071,309
Premium and other taxes and assessments	-	-			511,286
Total underwriting expenses	0	-		-	11,147,626
Underwriting loss before dividends	-	-		(1)	(787,994)
Policyholder dividends	-	-		2	36,108
Underwriting loss	-	-		(3)	(824,102)
Net investment income	5,389	-			1,341,305
Realized investment gains, net	169	-		(1)	379,195
Other loss, net	4	-		5	(117,239)
Income before income taxes	5,562	-		1	779,159
Federal and foreign income taxes	2,321	-		2	48,276
Net income	$ 3,241	$ -		$ (1)	$ 730,883

See accompanying notes to combined statutory basis financial statements.

(A) Eliminations represent intercompany transactions and balances for each account.

LIBERTY MUTUAL INSURANCE COMPANY POOL
Combined Statements of Changes in Statutory Surplus
Year ended December 31, 2005

	Casualty	Fire	LIC	LICe (A)	LMC	FST	Liberty (ex LIC) Eliminations (A)	EICOW	EICOWe (A)	WGIC	WUIC
Statutory surplus, beginning of year	$ 7,255,350	$ 672,745	$ 270,237	$ (254,635)	$ 17,644	$ 19,666	$ (106,227)	$ 995,151	$ (225,801)	$ 51,389	$ 99,813
Add (deduct):											
Net income	584,140	22,087	7,653	-	662	622	4,042	59,230	5,801	1,924	5,493
Change in net unrealized capital gains (losses):											
From unconsolidated subsidiaries	(251,079)	2,378	-	(20,204)	-	-	(421)	-	-	-	-
From non-affiliated securities	14,181	3,048	(1,738)	-	(22)	(40)	-	(2,403)	-	(55)	(147)
Contributed capital	265,725	100,000	-	-	-	-	-	220,000	-	-	-
Change in non-admitted assets	(49,199)	(232)	767	-	26	18	-	2,294	-	50	50
Change in net admitted deferred tax asset	53,121	28,700	13,532	-	204	102	-	16,216	-	425	408
Dividends paid	(100,000)	-	-	-	-	-	-	-	-	-	-
Surplus note retirement	-	-	-	-	-	-	-	-	-	-	-
Change in accounting principle	156,763	-	-	-	-	-	-	-	-	-	-
Other surplus changes, net	(4,306)	1,248	346	(356)	14	8	(32)	(219,826)	220,000	73	70
Statutory surplus, end of year	$ 7,924,696	$ 829,974	$ 290,797	$ (275,195)	$ 18,528	$ 20,376	$ (102,638)	$ 1,070,662	$ -	$ 53,806	$ 105,687

See accompanying notes to combined statutory basis financial statements.

(A) Eliminations represent intercompany transactions and balances for each account.

LIBERTY MUTUAL INSURANCE COMPANY POOL
Combined Statements of Changes in Statutory Surplus
Year ended December 31, 2005

	WBIC	Wausau Stock Eliminations (A)	LICA	LSI	LPIC	LPICe (A)	LLOT	LLOTe (A)	Liberty County Mutual Insurance Company - Liberty	Liberty County Mutual Insurance Company - RAM	LCMIC - Pre Acq
Statutory surplus, beginning of year	$ 42,137	$ (193,477)	$ 18,583	$ 32,226	$ 47,199	$ (47,199)	$ 5,509	$ (5,509)	$ 10,785	$ -	$ 271
Add (deduct):											
Net income	2,087	-	602	2,151	1,836	(8,493)	95	-	305	0	76
Change in net unrealized capital gains (losses):											
From unconsolidated subsidiaries	-	(10,653)	-	-	-	8,532	-	(95)	-	-	-
From non-affiliated securities	(55)	-	-	-	-	-	-	-	-	-	-
Contributed capital	-	-	-	-	(19,507)	19,507	-	-	-	-	-
Change in non-admitted assets	50	-	0	0	0	-	-	-	-	-	-
Change in net admitted deferred tax asset	423	-	51	0	19	-	(0)	-	(205)	-	-
Dividends paid	-	-	-	-	(8,493)	8,493	-	-	-	-	-
Surplus note retirement	-	-	-	-	-	-	-	-	-	-	-
Change in accounting principle	-	-	-	-	-	-	-	-	-	-	-
Other surplus changes, net	77	(81)	4	(3,949)	-	(1,894)	1	(1)	1	-	(1)
Statutory surplus, end of year	$ 44,719	$ (204,211)	$ 19,240	$ 30,428	$ 21,054	$ (21,054)	$ 5,605	$ (5,605)	$ 10,886	$ 0	$ 346

See accompanying notes to combined statutory basis financial statements.

(A) Eliminations represent intercompany transactions and balances for each account.

LIBERTY MUTUAL INSURANCE COMPANY POOL
Combined Statements of Changes in Statutory Surplus
Year ended December 31, 2005

	(A) Liberty County Elimination Co.	BEIC	(A) BEIE	BCIC	(A) BCIE	Prudential Property & Casualty (PRUPAC)	(A) Prudential Property & Casualty Eliminations	Prudential Commercial	(A) Prudential Commercial Eliminations	Prudential General	(A) Prudential General Eliminations
Statutory surplus, beginning of year	$ (10,000)	$ 79,797	$ (79,797)	$ 19,401	$ (19,401)	$ 675,260	$ (675,260)	$ 15,166	$ (15,166)	$ 14,370	$ (14,370)
Add (deduct):											
Net income	-	5,535	-	1,709	-	29,059	-	571	-	456	-
Change in net unrealized capital gains (losses):											
From unconsolidated subsidiaries	-	1,572	(6,014)	-	(1,583)	-	(26,109)	-	(567)	-	(456)
From non-affiliated securities	-	(26)	-	-	-	(288)	-	-	-	-	-
Contributed capital	-	-	-	7,000	(7,000)	-	-	-	-	-	-
Change in non-admitted assets	-	(1,178)	-	(797)	-	-	-	-	-	-	-
Change in net admitted deferred tax asset	-	1,030	-	672	-	(3,433)	-	(4)	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	-	-	-
Surplus note retirement	-	-	-	-	-	-	-	-	-	-	-
Change in accounting principle	-	-	-	-	-	-	-	-	-	-	-
Other surplus changes, net	-	(917)	(2)	(1)	-	771	-	-	-	-	-
Statutory surplus, end of year	$ (10,000)	$ 85,813	$ (85,813)	$ 27,984	$ (27,984)	$ 701,369	$ (701,369)	$ 15,733	$ (15,733)	$ 14,826	$ (14,826)

See accompanying notes to combined statutory basis financial statements.

(A) Eliminations represent intercompany transactions and balances for each account.

LIBERTY MUTUAL INSURANCE COMPANY POOL
Combined Statements of Changes in Statutory Surplus
Year ended December 31, 2005

	LIU	LIU Eliminations (A)	Reclasses	Adjustments	LM Pool
Statutory surplus, beginning of year	$ 57,927	$ (57,927)		$ (1)	$ 8,695,856
Add (deduct):					
Net income	3,241	-		(1)	730,883
Change in net unrealized capital gains (losses):					-
From unconsolidated subsidiaries	-	(5,076)			(309,775)
From non-affiliated securities	(109)	-		-	12,346
Contributed capital	-	-			585,725
Change in non-admitted assets	(817)	-		1	(48,967)
Change in net admitted deferred tax asset	79	-		11	111,351
Dividends paid	-	-			(100,000)
Surplus note retirement	-	-			-
Change in accounting principle	-	-			156,763
Other surplus changes, net	2,682	-		(9)	(6,080)
Statutory surplus, end of year	$ 63,003	$ (63,003)		$ 1	$ 9,828,102

See accompanying notes to combined statutory basis financial statements.

(A) Eliminations represent intercompany transactions and balances for each account.

9-H
IV

AUDITED COMBINED STATUTORY-BASIS FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

Liberty Mutual Insurance Company Pool
Years ended December 31, 2006 and 2005

Report of Independent Auditors

The Board of Directors
Liberty Mutual Holding Company Inc.

We have audited the accompanying combined statutory-basis balance sheets of the Liberty Mutual Insurance Company Pool (the Companies) as of December 31, 2006 and 2005, and the related combined statutory-basis 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. We were not engaged to perform an audit of the Companies' internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Companies' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and 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. The effects on the financial statements of these variances are not reasonably determinable but are presumed to be material.

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 the Companies at December 31, 2006 and 2005, or the results of their operations or their cash flows for the years then ended.

However, in our opinion, the combined statutory-basis financial statements referred to above present fairly, in all material respects, the combined statutory-basis financial position of the Liberty Mutual Insurance Companies at December 31, 2006 and 2005, and the combined statutory-basis 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(c) to the combined statutory-basis financial statements, the Companies adopted Statement of Statutory Accounting Principles No. 88, *Investment in Subsidiary, Controlled and Affiliated Entities, a Replacement of SSAP No. 46*, effective January 1, 2005.

Ernst + Young LLP

May 23, 2007

Liberty Mutual Insurance Company Pool

Combined Statutory-Basis Balance Sheets

December 31, 2006 and 2005

(dollars in thousands)

Admitted Assets	2006	2005
Investments:		
Fixed maturities	$22,807,332	$ 21,249,921
Common and preferred stocks	2,108,985	1,490,704
Investments in affiliates	5,283,023	4,088,772
Cash and short-term investments	1,680,955	1,399,710
Companies-occupied properties	345,746	333,217
Other invested assets	1,503,220	963,205
Total cash and invested assets	33,729,261	29,525,529
Premiums receivable, net	3,845,519	3,723,279
Deferred tax asset, net	822,249	833,717
Federal and foreign income taxes receivable	-	66,289
Reinsurance recoverable on paid losses, net	595,878	497,659
Receivable from affiliates	46,755	166,406
Funds held by affiliates and other reinsurers	79,581	25,169
Other admitted assets	1,034,254	1,000,357
Total admitted assets	$40,153,497	$ 35,838,405
Liabilities and Surplus		
Liabilities:		
Unpaid claims	$15,396,439	$ 14,372,439
Unpaid claim adjustment expenses	3,149,642	2,949,149
Unearned premiums	4,683,768	4,199,301
Other liabilities and accrued expenses	1,273,118	1,068,387
Collateral held for securities loaned	545,239	89,057
Funds held under reinsurance contracts	1,920,397	2,225,351
Ceded reinsurance premiums payable	681,299	724,597
Taxes, licenses and fees accrued	386,307	378,531
Federal and foreign income taxes accrued	26,116	-
Policyholder dividends accrued	6,015	3,491
Total liabilities	28,068,340	26,010,303
Surplus:		
Surplus notes	1,013,209	1,012,986
Special and other surplus funds	1,222,253	1,177,271
Contributed capital	3,692,460	2,809,797
Unassigned surplus	6,157,235	4,828,048
Total surplus	12,085,157	9,828,102
Total liabilities and surplus	$40,153,497	$ 35,838,405

See accompanying notes to the combined statutory-basis financial statements.

Liberty Mutual Insurance Company Pool

Combined Statutory-Basis Statements of Income

Years ended December 31, 2006 and 2005

(dollars in thousands)

	2006	2005
Premiums earned	$11,371,427	$10,359,632
Claims	6,948,455	6,612,338
Claim adjustment expenses	1,738,292	1,972,612
Underwriting and other expenses	2,559,572	2,051,390
Premium and other taxes and assessments	487,000	511,286
Total underwriting expenses	11,733,319	11,147,626
Underwriting loss before dividends	(361,892)	(787,994)
Policyholder dividends	51,028	36,108
Underwriting loss	(412,920)	(824,102)
Net investment income	1,836,061	1,341,305
Realized investment gains, net	159,946	379,195
Other loss, net	(106,817)	(117,239)
Income before income taxes	1,476,270	779,159
Federal and foreign income taxes	428,524	48,276
Net income	$ 1,047,746	$ 730,883

See accompanying notes to the combined statutory-basis financial statements.

Liberty Mutual Insurance Company Pool

Combined Statements of Changes in Statutory Surplus

Years ended December 31, 2006 and 2005

(dollars in thousands)

	2006	2005
Statutory surplus, beginning of year	$9,828,102	$8,695,856
Add (deduct):		
Net income	1,047,746	730,883
Change in net unrealized capital gains (losses):		
From unconsolidated subsidiaries	87,824	(334,376)
From non-affiliated securities	266,332	36,947
Contributed capital	882,663	585,725
Change in non-admitted assets	(63,604)	(48,967)
Change in net admitted deferred tax asset	(11,468)	111,351
Dividends paid	(2,164)	(100,000)
Change in accounting principle	-	156,763
Other surplus changes, net	49,726	(6,080)
Statutory surplus, end of year	$12,085,15 7	$9,828,102

See accompanying notes to the combined statutory-basis financial statements.

Liberty Mutual Insurance Company Pool

Combined Statutory-Basis Statements of Cash Flow

Years ended December 31, 2006 and 2005

(dollars in thousands)

	2006	2005
Cash provided:		
From operations:		
Premiums collected	$11,671,570	$10,567,636
Investment income and other income, net	1,542,017	1,621,988
Claims and claim adjustment expenses	(7,635,493)	(7,324,161)
Underwriting and other expenses, net	(3,314,449)	(2,666,946)
Net cash provided by operations	2,263,645	2,198,517
From investments sold or matured:		
Fixed maturities	6,488,712	9,656,062
Common and preferred stocks	416,418	1,333,524
Investments in affiliates	20,432	190,949
Other investments	803,196	334,971
Cash provided by investments	7,728,758	11,515,506
Contributed capital and paid in surplus	882,663	585,725
Total cash provided	10,875,066	14,299,748
Cash applied:		
Cost of investments purchased:		
Fixed maturities	8,021,011	10,968,844
Common and preferred stocks	780,385	1,124,670
Investments in affiliates	1,127,152	816,735
Other investments	877,198	373,772
Cash applied to investments	10,805,746	13,284,021
Surplus notes and capital notes	(223)	(136)
Borrowed funds repaid (received)	101,468	(74,461)
Dividends to stockholder	2,164	100,000
Other, net	(315,334)	642,307
Total other cash (provided)/applied	(211,925)	667,710
Total cash applied	10,593,821	13,951,731
Net increase in cash and short-term investments	281,245	348,017
Cash and short-term investments, beginning of year	1,399,710	1,051,693
Cash and short-term investments, end of year	$1,680,955	$ 1,399,710

See accompanying notes to the combined statutory-basis financial statements.

LIBERTY MUTUAL INSURANCE COMPANY POOL

Notes to Combined Statutory Basis Financial Statements

(dollars in thousands)

(1) Summary of Significant Accounting Policies

(a) Organization

The accompanying combined statutory-basis financial statements of Liberty Mutual Insurance Company ("LMIC"), Liberty Mutual Fire Insurance Company ("LMFIC"), Employers Insurance Company of Wausau ("EICOW"), Liberty County Mutual Insurance Company ("LCMIC"), and Liberty Mutual Personal Insurance Company ("LMPICO"), collectively referred to as the "Companies", include, on a combined basis, the accounts of their U.S. property and casualty insurance subsidiaries. LMIC, LMFIC, EICOW and LMPICO are wholly owned subsidiaries of Liberty Mutual Group Inc. ("LMGI"). LMGI is 100% owned by LMHC Massachusetts Holdings, Inc. ("LMHC MHI") and LMHC MHI is owned 100% by Liberty Mutual Holding Company, Inc. ("LMHCI").

In December 2005, LMFIC, pursuant to the appropriate regulatory approval, re-domesticated from Massachusetts to Wisconsin.

The Companies provide most types of property and casualty insurance, fidelity and surety bonds, and insurance-related services for individuals, businesses, government units, and associations. The Companies' and their affiliates have operations in North America, South America, Asia, Europe and Australia.

(b) Basis of Presentation

The accompanying 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 from accounting principles generally accepted in the United States ("GAAP").

Principal variations from GAAP include:

Investments: Investments in bonds and mandatory redeemable preferred stocks are reported at amortized cost or fair value based on their National Association of Insurance Commissioners ("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 accumulated other comprehensive income, net of related deferred taxes, for those designated as available-for-sale.

All single class and multi-class mortgage-backed/asset-backed securities (e.g., CMOs) are adjusted for the effects of changes in prepayment assumptions on the related accretion of discount or amortization of premium of such securities using either the retrospective or prospective methods. If it is determined that a decline in fair value is other than temporary, the cost basis of the security is written down to the undiscounted estimated future cash flows. For GAAP purposes, all securities, purchased or retained, that represent beneficial interests in securitized assets (e.g., CMO, CBO, CDO, CLO, MBS and ABS securities), other than high credit quality securities, are adjusted using the prospective method when there is a change in estimated future cash flows. If it is determined that a decline in fair value is other-than-temporary, the cost basis of the security is written down to the discounted fair value. If high credit quality securities are adjusted, the retrospective method is used.

LIBERTY MUTUAL INSURANCE COMPANY POOL

Notes to Combined Statutory Basis Financial Statements

(dollars in thousands)

Derivative instruments that meet the criteria of an effective hedge are valued and reported in a manner that is consistent with the hedged asset or liability. Embedded derivatives are not accounted for separately from the host contract. Under GAAP, the effective and ineffective portions of a single hedge are accounted for separately. Additionally, under GAAP, an embedded derivative within a contract that is not clearly and closely related to the economic characteristics and risks of the host contract is accounted for separately from the host contract and valued and reported at fair value. The change in fair value for cash flow hedges is credited or charged directly to a separate component of equity rather than to income as required for fair value hedges.

Undistributed results of limited partnerships are reflected in unrealized gains on a statutory-basis while under GAAP, undistributed earnings are reflected in net investment income or unrealized gains, depending on how the limited partnerships account for unrealized gains.

Subsidiaries: The accounts and operations of the Companies' foreign insurance subsidiaries, life insurance subsidiary, and non insurance subsidiaries are not consolidated with the accounts and operations of the Companies as would be required under GAAP.

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. Goodwill is an admitted asset subject to an aggregate limitation of 10% of the capital and surplus in the most recent financial statement filed with the domiciliary state commissioner, excluding EDP equipment, operating system software, net deferred tax assets and net positive goodwill. Goodwill is amortized on a straight-line basis over a period not to exceed ten years and reflected as a component of unrealized capital gain or loss for unconsolidated subsidiaries and other surplus changes. Under GAAP, goodwill is not amortized but is subject to an assessment for impairment on an annual basis, or more frequently if circumstances indicate that a possible impairment has occurred.

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 incurred to the extent the amount does not exceed anticipated acquisition costs on business ceded, rather than being deferred and amortized with deferred policy acquisition costs, as required under GAAP. Any excess commission is deferred and recognized over the policy term consistent with GAAP.

Nonadmitted Assets: Certain assets are designated as "nonadmitted," principally premiums receivable greater than ninety days past-due, furniture and equipment, deferred tax assets in excess of statutory limitations, goodwill in excess of statutory limitations, other intangible assets, and any other asset not specifically identified as an admitted asset within the NAIC Accounting Practices and Procedures Manual ("APP Manual"), are excluded from the accompanying balance sheets and charged directly to unassigned surplus. Under GAAP, such assets are included in the balance sheet, net of any valuation allowance required.

Policyholder Dividends: Policyholder dividends are recognized when declared rather than over the term of the related policies, as would be required under GAAP.

LIBERTY MUTUAL INSURANCE COMPANY POOL

Notes to Combined Statutory Basis Financial Statements

(dollars in thousands)

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: A liability for reinsurance balances has been established for unsecured unearned premiums and unpaid losses ceded to reinsurers not authorized to transact business in certain states of domicile ("unauthorized reinsurance") and for certain overdue reinsurance balances. Changes to those amounts are credited or charged directly to unassigned surplus. Under GAAP, an allowance for amounts deemed uncollectible would be established through a charge to earnings.

Reserves for claims and claim 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 recognized in income but 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. Under GAAP, such gains are deferred and recognized in income using the effective interest method over the expected settlement date.

Deferred Income Taxes: 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 capital and surplus excluding any net deferred tax assets, EDP equipment and operating system software, and any net positive goodwill ("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 income taxes. Under GAAP, state income 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. The difference between proceeds received and the face value of the surplus notes is amortized using the effective interest method over the period to maturity. Interest expense on surplus notes is reported as a component of net investment income when approved to be paid by the issuing Company's domiciliary Commissioner. Under GAAP, surplus notes are reported as debt and the associated interest is reported as interest expense in the period incurred.

Guaranty Funds and Other Assessments: The Companies are subject to guaranty funds and other assessments by the states in which the Companies write business. Guaranty funds and other assessments are accrued after an insolvency has occurred, which in most states is at the point the entity has been adjudicated insolvent, 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. Other assessments are accrued in the case of premium based assessments,

LIBERTY MUTUAL INSURANCE COMPANY POOL

Notes to Combined Statutory Basis Financial Statements

(dollars in thousands)

at the time the premiums are written, or, in the case of loss based assessments, at the time the losses are incurred. Under GAAP, the assessment is typically accrued when premiums are written because the assessment generally is based on prospective premium writings.

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

The effects of the foregoing variances from GAAP on the accompanying combined statutory-basis financial statements have not been determined, but are presumed to be material.

The preparation of financial statements in conformity with accounting practices prescribed or permitted by the insurance departments of the states in which the Companies are domiciled requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. While management believes that the amounts included in the combined statutory-basis financial statements reflect their best estimates and assumptions, these amounts could ultimately be materially different from the amounts currently provided in the financial statements, as more information becomes known.

(c) Accounting Changes and Correction of Errors

In June 2004, the National Association of Insurance Commissioners issued Statement of Statutory Accounting Principles ("SSAP") No. 88, Investment in Subsidiary, Controlled and Affiliated Entities, a Replacement of SSAP No. 46, effective on January 1, 2005. SSAP No. 88 requires companies to record investments in U.S. insurance subsidiaries based on the underlying audited statutory equity of each entity's financial statements, adjusted for any unamortized goodwill. Investments in foreign insurance subsidiaries are recorded based on the underlying audited U.S. GAAP equity of each entity adjusted for certain SSAPs in accordance with SSAP No. 88. Investments in noninsurance subsidiaries (with other than a minor ownership interest) are reported based on either the underlying U.S. GAAP equity adjusted to a U.S. statutory basis or based on the audited US. GAAP equity of the investee, depending on the nature of the activities in which the subsidiaries are engaged. The Companies adopted SSAP No. 88 effective January 1, 2005, and as a result of adopting SSAP No. 88, the Companies experienced an increase in the carrying value of their foreign insurance subsidiaries of $156,763 and a corresponding increase in unassigned funds.

(d) ***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, using the interest method. Unaffiliated common stocks are carried at fair value, as determined by the NAIC Securities Valuation Office (SVO). Preferred stocks are carried at cost or fair value in accordance with the SVO Manual. The related net unrealized capital gains (losses) on common and preferred stocks are reported in unassigned surplus net of any adjustment for deferred taxes. There are no restrictions on common or preferred stock.

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.

Non-investment grade investment securities are stated at the lower of amortized value or fair value.

The Companies' noninsurance subsidiaries, which are engaged in certain activities and 20% or more of their GAAP revenues, excluding unrealized gains and losses, are generated from the Companies and their affiliates, and all foreign insurance subsidiaries, are reported based on underlying GAAP equity adjusted to a statutory-basis. All other noninsurance subsidiaries are accounted for based on audited GAAP equity. The net change in the subsidiaries' equity is included in the change in net unrealized capital gains or losses. Dividends or distributions received from affiliates are recognized in investment income when declared to the extent that they are not in excess of the undistributed accumulated earnings attributable to the Companies' investment in affiliated common stock. Dividends or distributions declared in excess of the undistributed accumulated earnings attributable to the affiliated entity reduces the carrying amount of the Companies' investment.

Investments in limited partnerships are carried on the equity method.

Short-term investments include investments with remaining maturities of one year or less at the time of acquisition and are carried at cost and adjusted, where appropriate, for amortization of premium or discount, using the interest method.

Company-occupied properties are carried at the lower of depreciated cost or fair value. Depreciation is calculated on the straight-line basis over the estimated useful lives of the properties.

Realized losses and gains on sales of investments are recognized in net income using the specific identification method. Capital gain taxes are reflected in federal and foreign income taxes.

Changes in unrealized gains and losses on stocks, certain fixed maturities, and other investments are recorded in surplus along with any adjustment for deferred federal income taxes. 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's financial condition. Unrealized losses that are other-than-temporary are recognized in earnings.

(e) ***Fair Values of Financial Instruments***
The Companies have used the following methods and assumptions in estimating the fair value 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.

Funds held under reinsurance contracts (asset or liability): The carrying amounts reported in the balance sheets for these instruments approximate their fair values.

(f) *Securities Lending*
The Companies engage in securities lending activities whereby certain investment securities are loaned to other institutions for short periods of time. The Companies generally receive cash or short-term investments as collateral from the borrower, equal to or in excess of 102% of the market value of the loaned securities, and reinvests the cash collateral in short-term investments. The loaned securities remain a recorded asset of the Companies, however, the Companies record a liability for the amount of cash collateral held, representing its obligation to return the collateral related to the loaned securities.

(g) *Premiums*
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 premium reserves represent the unexpired portion of premiums written and are determined on a monthly pro-rata basis. Premium adjustments resulting from retrospective rating of experience-rated policies and unbilled audit premiums are estimated and accrued through earned premium except for Bridgefield Casualty Insurance Company ("BCIC") and Bridgefield Employers Insurance Company ("BEIC") which record it through written premium. Also accrued are the related taxes, assessments and expenses associated with acquiring, billing, and collecting the premiums. Accrued retrospectively rated premiums included within premiums, including all those relating to bulk incurred but not reported claims reserves ("IBNR"), have been determined based upon loss experience on business subject to such experience adjustment. Ten percent of the amount not offset by retrospective return premiums or collateral has been designated non-admitted and charged to surplus.

(h) *Premium Deficiency Reserves*
When the anticipated losses, loss adjustment expenses ("LAE"), commissions and other acquisition costs and maintenance costs that have not previously been expensed and exceed the recorded unearned premium reserve, future installment premiums on existing policies, and anticipated investment income on existing policies, a premium deficiency reserve is established.

(i) *Reinsurance*
Prospective reinsurance premiums, losses, and LAE are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

For reinsurance contracts that do not transfer insurance risk, the cash transactions between the ceding and assuming companies are reflected in the balance sheet as a deposit. Interest income or interest expense is recognized when cash is transferred subsequent to the depletion of the deposit or through the elimination of any remaining deposit upon the completion of the contract. The amount of the deposit asset (or liability) is adjusted by calculating the effective yield on the deposit to reflect actual payments to date and expected future payments with a corresponding credit or charge to interest income or expense.

(j) *Claims and Claim Adjustment Expense Reserves*
The Companies establish reserves for unpaid claims and claim adjustment expenses covering events that occurred in 2006 and prior years. These reserves reflect estimates of the total cost of claims

LIBERTY MUTUAL INSURANCE COMPANY POOL

Notes to Combined Statutory Basis Financial Statements

(dollars in thousands)

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 might not occur for several years. Reserve estimates are continually reviewed and updated as necessary as experience develops or new information becomes known, and any resulting adjustments are reflected in current operating results.

The Companies write insurance policies that cover catastrophic events. The Companies' policies cover unpredictable natural and other disasters, such as hurricanes, windstorms, earthquakes, floods, fires, terrorist attacks and explosions. Although the Companies carry reinsurance to mitigate their exposure to certain catastrophic events, claims from catastrophic events could reduce the Companies' earnings and cause substantial volatility in its financial results for any year and adversely affect their financial condition or results of operations.

The Companies do not discount reserves other than tabular discounting on the long-term indemnity portion of workers compensation claims and specific asbestos structured settlements. Reserves are reduced for estimated amounts of salvage and subrogation, deductibles recoverable from policyholders and unpaid recoverables under reinsurance contracts.

(k) ***Dividends***

For domestic property-casualty insurance, certain insurance contracts, primarily workers' compensation policies, are issued with dividend plans, to be paid subject to approval by the insurer's board of directors. Such policies approximate 1.9% and 2% of domestic property-casualty insurance premiums written at December 31, 2006 and 2005, respectively.

(l) ***Foreign Exchange***

The Companies convert foreign currencies to U.S. dollars 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.

LIBERTY MUTUAL INSURANCE COMPANY POOL

Notes to Combined Statutory Basis Financial Statements

(dollars in thousands)

(m) ***Inter-company Pooling Arrangements***

The accompanying combined statutory-basis financial statements of the Companies represent the Liberty Mutual Insurance Company Pool ("LM Pool").

In addition to pooling underwriting results and other income and expenses, the LM Pool members share in related balance sheet activity based on the terms of the LM Pooling and fronting reinsurance agreements and the pool members respective pooling percentages below.

		NAIC Company Number	2006 Pooling Percentage
Lead Company	Liberty Mutual Insurance Company ("LMIC")	23043	66.5%
Affiliated Pool Companies	Employers Insurance Company of Wausau ("EICOW")	21458	16.00%
	Liberty Mutual Fire Insurance Company ("LMFIC")	23035	10.00%
	Liberty Insurance Corporation ("LIC")	42404	6.00%
	Wausau Business Insurance Company ("WBIC")	26069	0.40%
	Wausau General Insurance Company ("WGIC")	26425	0.40%
	Wausau Underwriters Insurance Company ("WUIC")	26042	0.40%
	LM Insurance Corporation ("LM Insurance")	33600	0.20%
	The First Liberty Insurance Corporation ("First Liberty")	33588	0.10%
	Liberty Surplus Insurance Corporation ("LSIC")	10725	0.00%
	Liberty Personal Insurance Company ("LPIC")	11746	0.00%
	Liberty Insurance Company of America ("LICA")	10337	0.00%
100% Quota Share Affiliated Companies	Liberty Lloyds of Texas Insurance Company ("Lloyds")	11041	0.00%
	Liberty County Mutual Insurance Company ("LCMIC")	19544	0.00%
	Liberty Insurance Underwriters, Inc. ("LIU")	19917	0.00%
	Bridgefield Employers Insurance Company ("BEIC")	10701	0.00%
	Bridgefield Casualty Insurance Company ("BCIC")	10335	0.00%
	LM Property and Casualty Insurance Company ("LMPAC")	32352	0.00%
	LM General Insurance Company ("LMGIC")	36447	0.00%
	LM Personal Insurance Company ("LMPIC")	36439	0.00%
	Liberty Mutual Personal Insurance Company ("LMPICO")	12484	0.00%

All LM Pool company cessions to non-affiliated reinsurers are reported and ceded on an individual company basis prior to the cession of pooled business from the affiliated pool members, except for WBIC, WGIC and WUIC, to the lead company, LMIC. WBIC, WGIC and WUIC cede 100% of their direct underwriting activity to EICOW following all cessions to non-affiliated reinsurers. All cessions by LMIC to non-affiliated reinsurers are reported and ceded through the lead company, LMIC.

LMGIC and LMPIC, after external reinsurance, cede their net underwriting activity to LMPAC. LMPAC cedes the majority of its underwriting results to LMIC. LMPAC does retain certain defined lines of business within its own legal entity.

(n) ***Related Party Transactions***
LMIC has service agreements with its subsidiaries and several affiliated companies. Under the agreements, LMIC provides its affiliated companies with office space, supplies, equipment, telephone and wire services, the use of computers and similar machines and services of personnel employed by LMIC. Services include but are not limited to the following: claims handling, credit and collections, sales policy production, underwriting, investment management, and a variety of computer activities. LMIC is reimbursed for the costs of all services which it provides under these agreements.

Pursuant to an Employee Benefit Plans Cost-Sharing Agreement, LMIC has agreed to reimburse LMGI for certain costs related to one or more employee benefit or welfare plans covering current or past employees of LMIC or its affiliates which have been transferred to LMGI. The amount of the reimbursement is the required contributions to the pension plans and with respect to other plans, the benefits incurred on the Companies' behalf.

(o) ***Reclassifications***
Certain 2005 amounts in the Companies' combined statutory-basis financial statements have been reclassified to conform to the 2006 financial statement presentation.

LIBERTY MUTUAL INSURANCE COMPANY POOL

Notes to Combined Statutory Basis Financial Statements

(dollars in thousands)

(2) Investments

(a) *Fixed Maturities*

The amortized cost and fair values of fixed maturity securities at December 31, 2006 and 2005, are as follows:

December 31, 2006	Statement Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$ 2,835,565	$ 3,988	$ (51,655)	$ 2,787,898
U.S. mortgage and asset-backed securities of government and corporate agencies	7,911,254	33,148	(145,745)	7,798,657
State and political subdivisions	4,926,996	78,568	(16,991)	4,988,573
Corporate and other	6,414,728	97,868	(131,588)	6,381,008
Foreign government	718,789	4,866	(2,036)	721,619
Total fixed maturities	$22,807,332	$ 218,438	$(348,015)	$22,677,755

December 31, 2005	Statement Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$ 2,772,549	$ 15,217	$ (52,023)	$ 2,735,743
U.S. mortgage and asset-backed securities of government and corporate agencies	8,303,769	50,593	(129,417)	8,224,945
State and political subdivisions	3,014,404	48,042	(18,555)	3,043,891
Corporate and other	6,665,805	122,462	(125,024)	6,663,243
Foreign government	493,394	7,542	(1,327)	499,609
Total fixed maturities	$21,249,921	$ 243,856	$ (326,346)	$21,167,431

The amortized cost and fair values of fixed maturity securities at December 31, 2006, by contractual maturity, are as follows:

	Statement Value	Fair Value
Due to mature:		
One year or less	$ 1,043,615	$ 1,043,367
Over one year through five years	3,730,982	3,701,978
Over five years through ten years	4,266,880	4,215,160
Over ten years	5,854,601	5,918,593
U.S. mortgage and asset-backed securities of government and corporate agencies	7,911,254	7,798,657
Total fixed maturities	$ 22,807,332	$ 22,677,755

Expected maturities may differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

LIBERTY MUTUAL INSURANCE COMPANY POOL

Notes to Combined Statutory Basis Financial Statements

(dollars in thousands)

(b) ***Common and Preferred Stocks and Other Invested Assets***
The cost of common and preferred stocks and other invested assets at December 31, 2006 and 2005 are as follows:

	2006	2005
Common and preferred stocks	$ 1,271,108	$ 825,658
Other invested assets	1,063,414	839,502
	$ 2,334,522	$ 1,665,160

(c) Investments in Affiliates
The Companies' equity in the net assets of subsidiaries is summarized as follows at December 31, 2006 and 2005:

	2006	2005
Total assets	$ 32,522,747	$ 28,369,031
Total liabilities	(27,239,724)	(24,280,259)
Companies' equity in net assets	$ 5,283,023	$ 4,088,772

Equity in net assets of unconsolidated subsidiaries is distributed as follows at December 31, 2006 and 2005:

	2006	2005
International subsidiaries	$ 1,693,279	$ 1,177,848
Liberty Insurance Holdings, Inc.	1,617,501	1,465,547
Wausau Service Corp.	12,932	13,897
Golden Eagle Insurance Corporation	279,489	287,254
Liberty Northwest Insurance Corporation	89,942	231,757
Liberty Life Assurance Company of Boston	449,322	431,685
Liberty Energy Holdings, LLC	445,707	306,904
St. James/Arlington Real Estate LP	494,541	-
Other subsidiaries	200,310	173,880
Equity in net assets of unconsolidated subsidiaries	$ 5,283,023	$ 4,088,772

The remaining unamortized goodwill and other intangible asset balances included as a component of the Companies' investments in unconsolidated subsidiaries at December 31, 2006 and 2005 were $155,294 and $187,932, respectively, with corresponding goodwill amortization of $47,791 and $52,594 during 2006 and 2005, respectively.

During 2006, LMIC received dividends from affiliated investments of $746,330. The dividends were primarily distributed from Liberty Energy Holdings, LLC, Liberty Northwest Insurance Corporation, Indiana Insurance Company, Peerless Insurance Company, Golden Eagle Insurance Corporation, and Excelsior Insurance Company in the amounts of $324,359, $180,000, $108,968, $67,370, $28,725, and $27,574, respectively.

During 2005, LMIC received dividends from affiliated investments of $314,007. The dividends

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were primarily distributed from Liberty Energy Holdings, LLC and Liberty Spain Insurance Group, LLC in the amount of $293,037 and $18,044, respectively.

(d) ***Realized Investment Gains (Losses)***
Realized investment gains (losses) were as follows in 2006 and 2005:

	2006	2005
Fixed maturities:		
Gross gains	$ 51,446	$ 158,815
Gross losses	(47,146)	(29,488)
Common and preferred stocks:		
Gross gains	98,300	204,451
Gross losses	(24,006)	(49,486)
Other investments:		
Gross gains	121,950	124,654
Gross losses	(40,598)	(29,751)
	$ 159,946	$ 379,195

Proceeds from sales of fixed maturity investments during 2006 and 2005, were $3,289,951 and $4,946,129, respectively.

Realized capital losses on fixed maturity investments included other-than-temporary impairment write-downs of $24,671 and $1,083 in 2006 and 2005, respectively.

The following table shows a schedule of the Companies' unrealized losses and fair value by security type by duration of potential impairment at December 31, 2006.

Less Than 12 Months		Greater Than 12 Months	
	Fair Value of		Fair Value of

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	Unrealized Losses	Investments with Unrealized Losses	Unrealized Losses	Investments with Unrealized Losses
U.S. Treasury securities	$ (4,596)	$ 1,048,574	$ (47,059)	$1,573,726
U.S. mortgage and asset-backed securities of government and corporate agencies	(10,514)	1,452,355	(135,231)	4,721,905
State and political subdivisions	(11,413)	1,248,594	(5,578)	143,206
Corporate and other	(7,435)	1,042,324	(124,153)	3,172,727
Foreign government	(658)	125,374	(1,378)	137,074
Equities	(13,613)	210,505	(3,208)	33,694
Total	$ (48,229)	$ 5,127,726	$(316,607)	$9,782,332

The following table shows a schedule of the Companies' unrealized losses and fair value by security type by duration of potential impairment at December 31, 2005.

	Less Than 12 Months		Greater Than 12 Months	
	Unrealized Losses	Fair Value of Investments with Unrealized Losses	Unrealized Losses	Fair Value of Investments with Unrealized Losses
U.S. Treasury securities	$ (24,951)	$ 1,602,103	$ (27,072)	$ 723,426
U.S. mortgage and asset-backed securities of government and corporate agencies	(88,096)	5,383,139	(41,321)	830,074
State and political subdivisions	(17,511)	1,200,901	(1,044)	22,120
Corporate and other	(86,813)	3,374,401	(38,211)	797,803
Foreign government	(1,167)	187,779	(160)	7,329
Equities	(10,594)	127,573	(5,049)	43,821
Total	$ (229,132)	$ 11,875,896	$(112,857)	$2,424,573

The majority of unrealized losses reported in the corporate and other category involve holdings where the market value is less than 10% below book value. Also included in these unrealized losses are amounts relating to securities issued and guaranteed by agencies of the U.S. Government.

The equity holdings reflecting unrealized losses were not deemed to be impaired on an other-than-temporary basis under the Companies' impairment policy.

The unrealized losses on the securities above are subject to review during each quarterly impairment analysis cycle.

The Companies employ a systematic methodology to evaluate declines in fair value below the book value for equity securities and other investments. The methodology utilizes a quantitative and qualitative process ensuring that available evidence concerning the declines in fair value below carrying value is evaluated in a disciplined manner. Based on that evaluation and the Companies' ability and intent to hold these investments for a reasonable period of time sufficient for a recovery of fair value, the Companies view the decline in market value of these investments as being temporary in accordance with the Companies' impairment policy.

(dollars in thousands)

The Companies have cost method investments consisting primarily of equities with a market value of $0 and $103,736 at December 31, 2006 and 2005, respectively. All of the Companies' cost method investments are evaluated systematically for identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investment.

(e) Net Investment Income

Net investment income for the years ended December 31, 2006 and 2005, consisted of:

	2006	2005
Fixed maturities	$ 1,142,771	$ 1,109,420
Common and preferred stocks	48,050	66,627
Short-term investments	41,205	30,344
Other	31,130	38,309
Affiliated dividends	746,330	314,007
Gross investment income	2,009,486	1,558,707
Investment and other expense	(173,425)	(217,402)
Net investment income	$ 1,836,061	$ 1,341,305

(f) *Statutory Deposits*

At December 31, 2006 and 2005, fixed maturity securities carried at $2,350,393 and $3,513,967, respectively, were on deposit with state insurance departments to satisfy regulatory requirements.

(g) ***Securities Loaned***

At December 31, 2006, the market value of fixed maturity securities loaned was approximately $627,022. Cash and short-term investments received as collateral in connection therewith at December 31, 2006 was approximately $545,239, while non-cash collateral received in connection therewith was approximately $95,437.

(3) Unpaid Claims and Claim Adjustment Expenses

The Companies establish reserves for payment of claims and claim adjustment expenses that arise from the policies issued. As required by applicable accounting rules, no reserves are established until a loss, including a loss from a catastrophe, occurs. The Companies' reserves are segmented into three major categories: reserves for reported claims (estimates made by claims adjusters); IBNR representing reserves for unreported claims and supplemental reserves for reported claims; and reserves for the costs to settle claims. The Companies establish reserves net of salvage and subrogation by line of business or coverage and by the year in which losses occur.

Establishing loss reserves, including loss reserves for catastrophic events that have occurred, is an estimation process. Many factors can ultimately affect the final settlement of a claim and, therefore, the necessary reserve. Changes in the law, results of litigation, medical costs, the costs of repair materials and labor rates can all affect ultimate claim costs. In addition, time can be a critical part of reserving determinations since the longer the span between the incidence of a loss and the payment

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or settlement of the claim, the more variable the ultimate settlement can be. Accordingly, "short-tail" claims, such as property damage claims, tend to be easier to estimate than "long-tail" claims, such as workers compensation or general liability claims.

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' estimates of ultimate liabilities may be required. The effects of these changes are reflected in current operating results.

Catastrophes are an inherent risk of the property-casualty insurance business and have contributed to material period-to-period fluctuations in the Companies' results of operations and financial position. The level of catastrophe losses experienced in any period cannot be predicted and can be material to the results of operations and financial position of the Companies. Catastrophe losses incurred during the years ended December 31, 2006 and 2005 were $345,508 and $752,000, respectively.

See Note 4 for a discussion of incurred claims and claim adjustment expenses attributable to prior years for asbestos and environmental reserves.

Activity in property and casualty unpaid claims and claim adjustment expenses of the Companies, net of reinsurance recoverables on unpaid claims and claim adjustment expenses, is summarized as follows:

	2006	2005
Balance as of January 1	$ 17,321,588	$16,131,042
Incurred attributable to:		
Current year	8,033,550	7,901,089
Prior years:		
Discount accretion	105,000	117,000
All other	548,197	566,861
Total incurred	8,686,747	8,584,950
Paid attributable to:		
Current year	3,134,360	3,254,490
Prior years	4,339,073	4,133,907
Total paid	7,473,433	7,388,397
Net adjustment due to foreign exchange	11,179	(6,007)
Balance as of December 31	$18,546,081	$17,321,588

In 2006, incurred attributable to prior years, excluding asbestos and environmental, is primarily related to the workers compensation and assumed non-proportional liability lines of business, partially offset by personal auto and commercial auto lines of business. In 2005, incurred attributable to prior years, excluding asbestos and environmental, is primarily related to the workers compensation line of business, partially offset by personal auto and homeowners lines of business.

The Companies have not discounted unpaid property and casualty insurance claims and claim adjustment expenses other than tabular discounting on the long-term indemnity portion of workers compensation claims and specific asbestos structured settlements.

The tabular discounting on workers' compensation claims is based upon Unit Statistical Plan tables as approved by the respective states and generally ranges from 3.5% to 4% for the years ended December 31, 2006 and 2005. Unpaid claims and claim adjustment expenses at December 31, 2006 and 2005 include liabilities of $3,506,383 and $3,418,348 at discounted values of $2,169,090 and $2,099,541, respectively.

For certain commercial lines of insurance, the Companies offer experience-rated insurance contracts whereby the ultimate premium is dependent upon the claims incurred. At December 31, 2006 and 2005 the Companies held $3,406,000 and $3,364,000, respectively, of unpaid claims and claim adjustment expenses related to experience-rated contracts. Premiums receivable included accrued retrospective premiums and unbilled audit premiums of $805,504 and $783,232 at December 31, 2006 and 2005, respectively; $77,820 and $79,174, respectively, have been designated as non-admitted assets and charged to surplus.

Unpaid claims and claim adjustment expenses are recorded net of anticipated salvage and subrogation of $454,660 and $410,160 as of December 31, 2006 and 2005, respectively.

At December 31, 2006 and 2005, the Companies recorded reserve credits for large dollar deductibles on unpaid claim losses of $4,413,918 and $4,183,770, respectively. The Companies' billed and recoverable was $261,034 and $257,954 as of December 31, 2006 and 2005, respectively.

(4) Asbestos and Environmental Reserves

The Companies have exposure to asbestos and environmental claims that emanate principally from general liability policies written prior to the mid-1980's. In establishing asbestos and environmental reserves, the Companies estimate case basis reserves for anticipated losses and bulk reserves for LAE and IBNR losses. The Companies maintained casualty excess of loss reinsurance during the relevant periods. The reserves are reported net of cessions to reinsurers and include any reserves reported by ceding reinsurers on assumed reinsurance contracts.

Upon their de-affiliation from the Nationwide Group and affiliation with the Company, EICOW, WBIC, WGIC, and WUIC entered into ceded reinsurance contracts whereby Nationwide Indemnity Company assumed full responsibility for obligations on certain policies with effective dates prior to January 1, 1986, including all asbestos and environmental exposures.

The process of establishing reserves for asbestos and environmental claims is subject to greater uncertainty than the establishment of reserves for liabilities relating to other types of insurance claims. A number of factors contribute to this greater uncertainty surrounding the establishment of asbestos and environmental reserves, including, without limitation: (i) the lack of available and reliable historical claims data as an indicator of future loss development, (ii) the long waiting periods between exposure and manifestation of any bodily injury or property damage, (iii) the difficulty in identifying the source of asbestos or environmental contamination, (iv) the difficulty in properly allocating liability for asbestos or environmental damage, (v) the uncertainty as to the number and identity of insureds with potential exposure, (vi) the cost to resolve claims, and (vii) the collectibility of reinsurance.

The uncertainties associated with establishing reserves for asbestos and environmental claims and claim adjustment expenses are compounded by the differing, and at times inconsistent, court rulings on environmental and asbestos coverage issues involving: (i) the differing interpretations of various insurance policy provisions and whether asbestos and environmental losses are or were ever intended to be covered, (ii) when the loss occurred and what policies provide coverage, (iii) whether there is an insured obligation to defend, (iv) whether a compensable loss or injury has occurred, (v) how policy limits are determined, (vi) how policy exclusions are applied and interpreted, (vii) the impact of entities seeking bankruptcy protection as a result of asbestos-related liabilities, (viii) whether clean-up costs are covered as insured property damage, and (ix) applicable coverage defenses or determinations, if any, including the determination as to whether or not an asbestos claim is a products/completed operation claim subject to an aggregate limit and the available coverage, if any, for that claim. These uncertainties cannot be reasonably estimated, but could have a material impact on the Companies' future operating results and financial condition.

In the last two years the Companies, as well as the industry generally, have seen decreases in the number of asbestos claims being filed. This turn to a more favorable trend is due to a number of factors. Screening activity used by some lawyers to find new plaintiffs has been as a result of questionable practices discovered in the Federal Silica Multi District Litigation. Court decisions in several key states (e.g., Mississippi) have been favorable to defendants. Most importantly, several states have enacted legislation in the past few years that contain medical criteria provisions aimed at reducing the number of lawsuits filed by unimpaired plaintiffs and providing prompt and fair compensation to those who meet the criteria.

In the third quarter of 2005, a multi-disciplined team of internal claims, legal, reinsurance and actuarial personnel completed their comprehensive review of the Companies' asbestos exposure on a direct, assumed, and ceded basis. As part of the internal review, potential exposures of large policyholders were individually evaluated using the Company's proprietary stochastic model, which is consistent with a recent published actuarial paper on asbestos reserving. Among the factors reviewed in depth by the team of specialists were the type of business, level of exposure, coverage limits, geographic distribution of products, types of injury, state jurisdictions, legal defenses, and reinsurance potential. Small policyholders were evaluated using aggregate methods that utilized information developed from the large policyholders. Additionally, a provision for pure incurred but not reported losses was established for the potential emergence of first-time filers for future asbestos claims. As a result of the comprehensive study, the Companies increased net claims and claim adjustment expense reserves by $203,000.

As a result of the significant uncertainty inherent in determining a company's asbestos and environmental liabilities and establishing related reserves, the amount of reserves required to adequately fund the Companies asbestos and environmental claims cannot be accurately estimated using conventional reserving methodologies based on historical data and trends. As a result, the use of conventional reserving methodologies frequently has to be supplemented by subjective considerations including managerial judgment. In that regard, the estimation of asbestos claims and associated liabilities and the analysis of environmental claims considered prevailing applicable law and certain inconsistencies of court decisions as to coverage, plaintiffs' expanded theories of

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liability, and the risks inherent in major litigation and other uncertainties, the Companies believe that in future periods it is possible that the outcome of the continued uncertainties regarding asbestos and environmental related claims could result in an aggregate liability that differs from current reserves by an amount that could be material to the Companies' future operating results and financial condition.

Unpaid claims and claim adjustment expenses for asbestos and environmental related claims, net of reinsurance, were $1,257,719 and $1,486,253 at December 31, 2006 and 2005, respectively.

The following table summarizes the activity for the Companies' asbestos and environmental claims and claim adjustment expenses for the years ended December 31, 2006 and 2005.

	2006	2005		2006	2005
Asbestos Gross:			**Environmental Gross:**		
Beginning reserves	$2,688,474	$2,367,219	Beginning reserves	$ 752,260	$ 796,231
Incurred losses and LAE	147,530	611,083	Incurred losses and LAE	48,732	146,336
Calendar year payments	327,905	289,970	Calendar year payments	234,219	190,377
Foreign exchange	(24)	142	Foreign exchange	86	70
Ending reserves	$2,508,075	$2,688,474	Ending reserves	$ 566,859	$ 752,260
Asbestos Net:			**Environmental Net:**		
Beginning reserves	$1,048,825	$ 942,380	Beginning reserves	$ 437,428	$ 538,484
Incurred losses and LAE	21,958	236,090	Incurred losses and LAE	20,201	509
Calendar year payments	217,862	129,648	Calendar year payments	52,862	101,571
Foreign exchange	2	3	Foreign exchange	29	6
Ending reserves	$ 852,923	$1,048,825	Ending reserves	$ 404,796	$ 437,428

(5) Reinsurance

In the ordinary course of business, the Companies assume reinsurance and also cede reinsurance 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.

The effects of reinsurance on premiums written and earned for the years ended December 31, 2006 and 2005 were as follows:

	2006		2005	
	Written Premium	Earned Premium	Written Premium	Earned Premium
Direct	$ 14,575,195	$ 14,173,545	$ 13,112,417	$ 13,006,205
Assumed	559,700	517,028	552,569	548,251
Ceded	(3,270,751)	(3,319,146)	(3,068,898)	(3,194,824)

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Net premiums	$ 11,864,144	$ 11,371,427	$ 10,596,088	$ 10,359,632

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

The Companies have an aggregate reinsurance recoverable from Nationwide Indemnity Company in the amount of approximately $2,101,987 and $2,099,835 as of December 31, 2006 and 2005, respectively. The reinsurance recoverable is guaranteed by Nationwide Mutual Insurance Company. Additionally, the Companies have significant reinsurance recoverable concentrations with Swiss Reinsurance Group, Berkshire Hathaway Insurance Group, Everest Re Group, Lloyds of London, and Munich Re Group, totaling approximately $1,358,794, $505,414, $402,692, $394,709, and $347,724, respectively, as of December 31, 2006, net of offsetting collateral under the contracts.

Recoverables from state mandated involuntary market pools and associations primarily represent servicing carrier business. As a servicing carrier, the Companies retain no direct underwriting risk but instead cede 100% of the involuntary premium and losses back to the pool. Payment of losses is shared among the pool participants in proportion to their pool participation. Credit risk with respect to any given pool or association is a composite of the cumulative credit of all participants.

Effective April 1, 2003 and April 1, 2004, LMIC entered into four quota share reinsurance agreements with Liberty Re Bermuda, a direct, unconsolidated subsidiary of LMIC, whereby LMIC ceded Homeowners, Auto Physical Damage, Other Liability and Products Liability. All of these agreements are on a funds held basis with the exception of the Auto Physical Damage. During 2005, both Auto Physical Damage agreements were commuted. During 2006, the remaining Homeowners and Products Liability agreements were commuted.

LMIC has two quota share reinsurance agreements whereby LMIC ceded Auto Physical Damage to Liberty Re Bermuda and St James Insurance Company Ltd.

In 2006, the Companies reported $36,399 in its operations in the current year as a result of commutation of reinsurance with Liberty Re Bermuda, which are comprised of the following:

Losses incurred	$ 25,875
Loss adjustment expenses incurred	8,576
Premiums earned	(117)
Other	2,065
	$ 36,399

For the agreements discussed in the three preceding paragraphs, LMIC ceded premiums earned of $386,962 and $362,347 for the years ended December 31, 2006 and 2005, respectively. Ceded claims and claim adjustment expenses incurred as of December 31, 2006 and 2005 were $208,126 and $259,167, respectively. The cessions resulted in statutory net losses of $86,601 and $66,995 for the years ended December 31, 2006 and 2005, respectively.

In 2002 and prior, the Companies entered into retroactive reinsurance agreements with unaffiliated entities where a significant portion of the consideration is retained on a "funds held" basis and interest is credited on the balance with a weighted average rate of approximately 7.7% annually. Excluding paid liquidations, the Companies adjusted the retroactive reinsurance recoverable $85,483 and $29,785, and recorded other income (expense) of $56,485 and $(5,830) in 2006 and 2005, respectively. Interest credited to the funds held balances for the years ended December 31, 2006 and 2005 was $124,569 and $113,158, respectively.

In 2006, LMIC entered into multi-year property catastrophe reinsurance agreements with Mystic Re Ltd. ("Mystic Re"), a Cayman Islands domiciled reinsurer, to provide $525,000 of additional reinsurance coverage for LMIC and its affiliates in the event of a Northeast hurricane. The reinsurance agreements are fully collateralized by proceeds received by Mystic Re from the issuance of catastrophe bonds and provide coverage for hurricane-related losses from Washington, D.C., to Maine based on industry insured losses as reported by Property Claim Services. The reinsurance covers the 2007-2008 hurricane seasons and $200,000 was in force for the 2006 hurricane season. The Companies have not recorded any recoveries under this program. Mystic Re has no other reinsurance in force.

(6) Debt

The Companies maintain a $600,000 revolving line of credit with LMGI. Outstanding borrowings as of December 31, 2006 and 2005 totaled $961 and $102,111, respectively. Interest is paid quarterly in arrears based on average borrowings at a variable interest rate. Interest expense incurred related to this agreement was $1,708 and $2,516 in 2006 and 2005, respectively. Interest paid related to this agreement was $2,333 and $1,911 in 2006 and 2005, respectively.

During 2005, LMIC repaid a demand note with a principal amount of $19,541 to its wholly owned subsidiary, Liberty Re (Bermuda). Interest was payable semi-annually on the first day of April and October, computed at LIBOR plus .15%. $1,234 of interest was paid in 2005.

(7) Capital and Surplus

As of December 31, 2006 and 2005, LMIC and LMFIC each had 100,000 shares ($100 par value) authorized, issued and outstanding, EICOW had 5,000,000 shares ($1 par value) authorized, issued, and outstanding and LMPICO had 7,000 shares ($100 par value) authorized, issued and outstanding. As of December 31, 2006, the Companies have restricted surplus of $1,219,753 resulting from retroactive reinsurance contracts.

The Companies received capital contributions from LMGI in the amount of $882,663 and $585,725 in 2006 and 2005, respectively.

Property and casualty insurance companies are subject to certain Risk-Based Capital ("RBC") requirements as specified by the NAIC. Under those requirements, the amount of capital and surplus maintained by a property and casualty insurance company is to be determined based on the various risk factors related to it. At December 31, 2006, the Companies exceed the RBC requirements.

(dollars in thousands)

(8) Surplus Notes

Surplus notes represent subordinated debt instruments classified as a component of surplus for statutory accounting purposes. At December 31, 2006 and 2005, the Companies had the following surplus notes outstanding:

Interest Rate, Amount of Note, Date of Maturity	2006	2005
8.200%, $121,361 Notes due May 4, 2007	$ 121,352	$ 121,239
8.500%, $150,000 Notes due May 15, 2025	149,811	149,800
7.875%, $250,000 Notes due October 15, 2026	249,724	249,709
7.697%, $500,000 Notes due October 15, 2097	492,322	492,238
	$ 1,013,209	$ 1,012,986

Payments for interest on and principal of the notes are expressly subordinate to all policyholder claims and other obligations of LMIC. Accordingly, interest and principal payments are contingent upon prior approval of the Commissioner of Insurance of the State of Massachusetts. Interest paid was $80,874 in each of the years ended December 31, 2006 and 2005.

(9) Federal and Foreign Income Taxes

LCMIC files a separate Federal income tax return. All other Companies file as members of a consolidated Federal income tax return with LMHC. Pursuant to a written inter-company Federal income tax allocation agreement, the consolidated tax liability is allocated to each company based on its separate tax liability. Tax benefits are allocated to each member company for its portion of net operating losses and carryforwards in the year they are used by the consolidated group. Companies have the enforceable right to recoup prior payments in the event of future losses. Inter-company tax balances are settled quarterly. A provision is made, where applicable, for taxes on foreign operations.

As of December 31, 2006 and 2005, the components of the net deferred tax assets and liabilities are as follows:

	2006	2005
Gross deferred tax assets	$ 1,891,671	$ 1,750,903
Gross deferred tax liabilities	(769,449)	(630,979)
Net deferred tax asset	1,122,222	1,119,924
Net deferred tax asset non-admitted	(299,973)	(286,207)
Net admitted deferred tax asset	$ 822,249	$ 833,717

The provision (benefit) for incurred taxes on earnings for the years ended December 31 are:

	2006	2005

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Federal	$ 375,732	$ (69,409)
Federal income tax on net capital gains	55,927	132,569
Utilization of net operating loss	(17,911)	(33,642)
Foreign	14,776	18,758
Federal and foreign income taxes incurred	$ 428,524	$ 48,276

The Companies' deferred tax assets and liabilities result primarily from discounting of unpaid loss and LAE reserves, limits on unearned premium reserve deductions, deferred compensation deductions, reversal of discount accretion on bonds, investment impairments, fixed asset depreciation differences, unrealized gains, statutory non-admitted assets, net operating loss carryforwards, and tax credit carryforwards.

Effective tax rates differ from the current statutory rate of 35% principally due to the effects of tax-exempt interest, excludible dividend income, foreign operations, revisions to prior year estimates, and changes in deferred taxes related to non-admitted assets.

The Companies paid taxes of $336,119 and $73,967 in 2006 and 2005, respectively.

The amount of Federal income taxes incurred and available for recoupment in the event of future losses is $362,188 from the current year and $45,918 from the preceding year.

As of December 31, 2006, the Companies have net operating loss carry forwards of $1,960 generated in 2002 and expiring in 2022.

The Companies also have alternative minimum tax credits of $7 that do not expire and foreign tax credits of $72,462 as follows:

Year Generated	Amount	Expiration
2001	$ 7,813	2011
2002	6,976	2012
2003	43,703	2013
2004	13,709	2014
2006	261	2016

The Companies have not provided for deferred taxes on unremitted earnings of subsidiaries outside the United States where such earnings are permanently invested and the Companies do not expect those unremitted earnings to reverse and become taxable to the Companies in the foreseeable future. At December 31, 2006, unremitted earnings of foreign subsidiaries were $587,888. If these earnings were distributed in the form of dividends or otherwise, the Companies would be subject to U.S. income taxes less an adjustment for applicable foreign tax credits.

The American Jobs Creation Act of 2004 ("the AJC Act") introduced a special 85% dividends received deduction on the repatriation of certain foreign earnings to a United States taxpayer, provided certain criteria are met. The maximum amount of foreign earnings eligible for the deduction is limited to the greater of $500,000 or the amount shown in the Companies most recent audited financial statements prior to June 30, 2003, as earnings permanently reinvested outside of the United States. In 2005, the Companies repatriated a total of $161,144 from its foreign subsidiaries and recorded a related expense of $18,181.

The IRS has completed its review of the Companies' federal income tax returns through the 1998 tax year and is currently reviewing income tax returns for the 1999 through 2003 tax years. Any adjustments that may result from the IRS examinations of these income tax returns are not expected to have a material impact on the financial position, liquidity or results of operations of the Companies.

(10) Benefit Plans

(a) Pension Plans and Postretirement Benefit

The U.S. Liberty Mutual Retirement Benefit Plan and Supplemental Income at Retirement Plan (SIRP) defined benefit pension plans are sponsored by LMGI. Accordingly, the plan assets and obligations are not included in the Companies' summary of assets and obligations as of December 31, 2006 and 2005. Also, the Employees' Thrift-Incentive plan and Supplemental Income at Retirement Plan (SIRP) defined contribution pension plans are sponsored by LMGI.

The Companies' continue to sponsor non-contributory defined benefit and contributory defined contribution pension plans covering substantially all Canadian and certain U.S. employees. The benefits and eligibility are based on age, years of service and the employee's compensation, as more fully defined in the Plan. As of December 31, 2006, the Companies accrued pension cost in accordance with the actuarially determined amounts, with an offset for the incremental asset amortization.

The Liberty Mutual U.S. postretirement healthcare and life benefit obligations, except for Death Benefit Only (DBO) plan (split-dollar life), are also sponsored by LMGI. Accordingly, the plan assets and obligations are not included in the Companies' summary of assets and obligations as of December 31, 2006 and 2005.

The Companies recorded an obligation effective January 1, 2006 for the Death Benefit Only (DBO) plan postretirement life benefit (split-dollar life). Certain U.S. employees may become eligible for this benefit if they reach retirement age and have ten years of service working for the Companies, as more fully defined in the Plan.

The Companies continue to provide certain healthcare and life insurance benefits for retired Canadian employees. Substantially all Canadian employees may become eligible for these benefits if they reach retirement age and have ten years of service working for the Companies, as more fully defined in the Plan.

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A summary of assets, obligations, and assumptions of the Pension Plans and Postretirement Benefit Plans are as follows at December 31, 2006 and 2005:

	Pension		Postretirement	
	2006	2005	2006	2005
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 131,581	$ 106,830	$ 2,124	$ 1,898
Service costs	3,835	3,647	-	-
Eligibility costs	-	-	328	29
Interest costs	7,319	6,681	278	121
Actuarial (gains) or losses	(23,678)	17,404	459	149
Currency exchange rate change	(309)	1,288	(30)	66
Addition of DBO Life	-	-	849	-
Benefits paid	(4,593)	(4,269)	(183)	(139)
Benefit obligation at end of year	$ 114,155	$ 131,581	$ 3,825	$ 2,124
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 36,094	$ 32,340	$ -	$ -
Actual return on plan assets	6,873	3,314	-	-
Currency exchange rate change	(446)	1,109	-	-
Employer contribution	5,307	3,600	183	139
Benefits paid	(4,593)	(4,269)	(183)	(139)
Fair value of plan assets at end of year	$ 43,235	$ 36,094	$ -	$ -
Reconciliation of Funded Status:				
Funded status of the plan	$ (70,920)	$ (95,487)	$ (3,825)	$ (2,124)
Unrecognized net gain (loss)	18,713	49,747	1,133	(150)
Unamortized prior service cost	597	678	-	-
Unrecognized net transition obligation (asset)	2,431	2,492	949	1,053
Net amount recognized	$ (49,179)	$ (42,570)	$ (1,743)	$ (1,221)
Vested accumulated benefit obligation	$ 92,149	$ 93,559	$ 3,825	$ 2,124
Non-vested benefit obligation	$ -	$ -	$ 4,004	$ 841

	Pension		Postretirement	
	2006	2005	2006	2005
Components of net periodic benefit cost:				

LIBERTY MUTUAL INSURANCE COMPANY POOL

Notes to Combined Statutory Basis Financial Statements

(dollars in thousands)

Service costs	$ 3,835	$ 3,647	$ -	$ -
Eligibility costs	-	-	328	29
Interest costs	7,319	6,681	278	121
Expected return on plan assets	(2,767)	(2,831)	-	-
Amortization of unrecognized:				
Net loss (gain)	3,311	2,040	1	(22)
Prior service cost	81	81	-	-
Net transition obligation	60	80	104	99
Total net periodic benefit costs	$ 11,839	$ 9,698	$ 711	$ 227
Amounts recognized in the statutory-basis financial statements consist of:				
Prepaid benefit costs	$ 5,490	$ 3,616	$ -	$ -
Accrued benefit liability	(55,904)	(57,465)	(1,743)	(1,221)
Minimum pension liability	1,115	2,129	-	-
Intangible asset	120	9,150	-	-
Net amount recognized	$ (49,179)	$ (42,570)	$ (1,743)	$ (1,221)
Change in minimum pension liability	$ (1,014)	$ (3,863)		
Weighted-average assumptions used to determine net periodic costs:				
Discount rate	5.50%	6.25%	5.50%	6.25%
Expected return on plan assets	7.50%	8.00%	-	-
Rate of compensation increase	4.70%	4.70%	-	-

The measurement date used to measure the pension and postretirement measures is December 31. The weighted average discount rates used in determining the year-end pension and post-retirement obligations was 5.70% in 2006 and 5.50% in 2005.

The average health care cost trend rates assumed for 2007 is 9.00% graded down to 5.00% in 2011. Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-percentage point increase	1-percentage point decrease
Effect on total postretirement benefit obligation	$ 339	$ (265)
Effect on total of eligibility cost and interest cost	$ 31	$ (24)

(b) Defined Contribution Plans

The Companies continues to sponsor various defined contribution savings plans for Canadian and certain U.S. employees. The Companies' expense charged to operations amounted to approximately $951 and $911 in 2006 and 2005, respectively. The Companies' contribution to the defined contribution plans is based on the employee contribution amounts and profitability.

(dollars in thousands)

(c) Holding Company Plans

The Companies' U.S. eligible employees participate in non-contributory defined benefit pension plans and contributory defined contribution pension plans sponsored by LMGI, a holding company. The Companies have no legal obligation for benefits under these plans subsequent to September 24, 2003. LMGI allocates defined benefit pension amounts to the Companies based on paid amounts. LMGI allocates defined contribution pension and postretirement amounts to the Companies based on Statutory incurred amounts.

LMGI allocated $232,775 and $165,417 of defined benefit pension expense to the Companies in 2006 and 2005, respectively. LMGI allocated $87,108 and $74,351 of defined contribution pension expense to the Companies in 2006 and 2005, respectively. LMGI allocated $49,284 and $40,297 of postretirement expense to the Companies in 2006 and 2005, respectively.

(d) Other Compensation Plans

The Companies provide various performance based incentive compensation plans to employees meeting the participation requirements of the respective plans. Performance compensation is determined in accordance with plan formulas. For the years ended December 31, 2006 and 2005, compensation expense related to the Companies' performance incentive plans was $450,112 and $334,704, respectively.

(e) Asset Allocation

The pension plan's weighted-average asset allocation by asset category is as follows:

Asset Category	**2006**	**2005**
Equity Investments	70%	76%
Debt Investments	20%	20%
Other	10%	4%
Total	**100%**	**100%**

The Companies recognize that, based on historical data, the asset classes most likely to produce the greatest return in excess of inflation over time are also likely to exhibit the most volatility. Conversely, the asset classes likely to be the least volatile are likely to produce the lowest return over time. Therefore, the investment philosophies and strategies must take into account both return and risk objectives.

Based on the following considerations, the Companies can tolerate a moderate amount of risk while striving to maximize investment returns:

(i) The Companies are responsible for financing any unfunded liabilities emerging because of poor investment returns. Therefore, the Companies have a direct exposure to risk. While it is

LIBERTY MUTUAL INSURANCE COMPANY POOL

Notes to Combined Statutory Basis Financial Statements

(dollars in thousands)

important to avoid excessive volatility in investment returns, the Companies can tolerate some volatility risk;

(ii) The Companies contribute to the Plan in compliance with regulatory requirements and at a level sufficient to finance the defined benefits. The Companies will establish these contributions based on the advice of an actuary. However, periodic increases in pension contributions, to finance unfunded liabilities emerging from poorer than expected investment performance, should not significantly affect the Companies overall cash flow. Therefore, the Companies can tolerate some volatility of investment returns; and,

(iii) The Plan is managed on a going concern basis, including management of the assets. In the foreseeable future, it is unlikely that there will be any special liquidity demands on the Plan. Thus, shorter-term fluctuations in security values will not have a significant adverse impact on the financial stability of the Plan. Therefore, the Companies can tolerate some volatility of investment returns.

Taking into consideration the investment risk and philosophy of the Plan, the following asset mix has been established:

Assets	Minimum %	Target Mix %	Maximum %
Equity Investments	45	70	85
Debt Investments	15	30	40
Other	0	0	10

(f) Expected long-term rate of return assumption
The expected long-term rate of return is estimated based on many factors including the expected forecast for inflation, risk premiums for each asset class, expected asset allocation, current and future financial market conditions, and diversification and rebalancing strategies.

(g) Expected Future Benefit Payments
The following benefit payments, which reflect expected future service, net of participants' contributions, are as follows:

	Pension	Postretirement Benefits
2007	$ 4,009	$ 161
2008	4,003	169
2009	4,046	178
2010	4,096	185
2011	4,145	192
2012-2016	19,985	1,019

(h) Expected Company Contributions

LIBERTY MUTUAL INSURANCE COMPANY POOL

Notes to Combined Statutory Basis Financial Statements

(dollars in thousands)

The Companies expect to contribute $4,854 and $161 to the pension and postretirement plans, respectively, in 2007.

(11) Dividend Restrictions

LMIC's, LMPICO's, LMFIC's and EICOW's ability to pay dividends is restricted under applicable insurance laws and regulations. Under the insurance laws of the domiciliary states of LMIC, LMPICO, LMFIC and EICOW, an insurer may make an ordinary dividend payment if its surplus as regards to policyholders, following such dividend, is reasonable in relation to its outstanding liabilities and adequate to its financial needs. However, no insurer may pay an extraordinary dividend without the approval or non-disapproval of the domiciliary insurance regulatory authority. Under the insurance laws of Massachusetts, the domiciliary state of LMIC and LMPICO, an extraordinary dividend is defined as a dividend whose fair market value, together with other dividends made within the preceding 12 months, exceeds the greater of 10% of the insurer's surplus as regards policyholders as of the preceding December 31, or the insurer's net income for the 12-month period ending on the preceding December 31. Under the insurance laws of Wisconsin, the domiciliary state of EICOW and LMFIC, an extraordinary dividend is defined as a dividend whose fair market value, together with the fair market value of other dividends paid within the preceding 12 months, exceeds the lesser of (a) 10% of the insurer's surplus as regards policyholders as of the preceding December 31, or (b) the greater of (1) the insurer's net income for the preceding calendar year, minus realized capital gains for that calendar year, or (2) the aggregate of the insurer's net income for the three preceding calendar years minus realized capital gains for those calendar years and minus dividends paid within the first two of the preceding three calendar years. The maximum dividend payout in 2007 that may be made by LMIC, LMPICO, LMFIC and EICOW, prior to regulatory approval is $1,197,094.

(12) Commitments and Contingent Liabilities

As a result of purchased annuities with the claimant as payee, the Companies no longer carry reserves of $1,080,880. The Companies are contingently liable should the issuers of the purchased annuities fail to perform under the terms of the annuities. The amount of unrecorded loss contingencies related to the purchased annuities was $1,080,880 as of December 31, 2006.

Purchased structured settlement annuities exceeding one percent of policyholders' surplus as of December 31, 2006 are as follows:

Life Insurance Company and Location	Licensed in Company's State of Domicile (Yes/No)	Statement Value of Annuities
The Prudential Insurance Company of America Newark, New Jersey	Yes	$ 519,598
Liberty Life Assurance Company of Boston Boston, Massachusetts	Yes	$ 330,304
Nationwide Life Insurance Company Columbus, Ohio	Yes	$ 160,341

LIBERTY MUTUAL INSURANCE COMPANY POOL

Notes to Combined Statutory Basis Financial Statements

(dollars in thousands)

The Companies accrued a liability for guaranty funds and other assessments of $276,700 and $296,304 as of December 31, 2006 and 2005, respectively. Liabilities for guaranty funds and other insurance-related assessments are not discounted. As of December 31, 2006 and 2005, a receivable for future premium tax credits related to these assessments was $49,269 and $56,677, respectively. This represents management's best estimate of the guaranty fund and other assessment liability. The related asset is limited to the amount that is determined based on future premium collections or policy surcharges from policies in force. Current assessments are expected to be paid out over the next five years; while premium tax offsets are expected to be realized within one year.

The Companies have reinsurance funds held balances of approximately $1,630,952, which are subject to ratings triggers whereby if any of the Companies' insurance financial strength ratings (with the three major rating agencies) fall below the A- or A3 categories, the funds may be required to be placed in trust and invested in assets acceptable to the Companies. The Companies have no additional material ratings triggers.

At December 31, 2006, the Companies had commitments to purchase various mortgage-backed securities settling in 2007, at a cost of $59,162 with a fair market value of $59,334, which are included as fixed maturities in the combined statutory-basis balance sheets. Additionally, at December 31, 2006, the Companies had unfunded capital commitments for private equity investments of $1,213,508.

The Companies lease certain office facilities and equipment from others under operating leases expiring in various years through 2016. In addition, the Companies are party to two land leases expiring in 2025 and 2101. Rental expense amounted to $155,804 and $152,041 for the years ended December 31, 2006 and 2005, respectively. It is expected that as leases expire they will be replaced. Future minimum rental payments under non-cancelable leases with terms in excess of one year are estimated to be:

Year	Operating Leases	Land Leases	Net Lease Obligations
2007	$ 97,770	$ 970	$ 98,740
2008	89,803	970	90,773
2009	66,981	970	67,951
2010	46,027	970	46,997
2011 and thereafter	40,239	114,899	155,138
Total	$ 340,820	$ 118,779	$ 459,599

The Companies have entered into sale-leaseback arrangements with unrelated parties on certain property, plant and equipment ("PP&E"). Equipment agreements are under thirteen-month lease periods with monthly renewal options to a maximum of sixty months. The Companies have a purchase option for all PP&E at the end of each respective lease. The Companies sold non-admitted assets with book values of $25,988 and $22,319 in 2006 and 2005, respectively. The Companies received cash in the amounts of $28,165 and $24,336 in 2006 and 2005, respectively. The transactions resulted in deferred gains of $2,177 and $2,017 in 2006 and 2005, respectively. The following is a schedule of the Companies' minimum lease obligations:

LIBERTY MUTUAL INSURANCE COMPANY POOL

Notes to Combined Statutory Basis Financial Statements

(dollars in thousands)

Year	Sale Lease-back
2007	$ 39,830
2008	36,759
2009	31,167
2010	21,796
2011 and thereafter	5,738
Total	$135,290

The Companies guarantee $27,000 of medium term notes payable which are obligations of its parent company, LMGI.

The Companies guarantee the performance of the obligations of LMGI under a $600,000 commercial paper program. There was no commercial paper outstanding as of December 31, 2006.

The Companies guarantee the performance of the obligations of LMGI under a $750,000 five-year revolving credit agreement that LMGI entered into on July 25, 2005 to replace its previous $450,000 revolving credit agreement. This revolving line of credit serves as back-up facility for the commercial paper program. The amount outstanding as of December 31, 2006 was $0.

The Companies guarantee the performance of Inversora Segucar, C.A., under a $25,000 liquidity facility program. The amount outstanding as of December 31, 2006 was $16,323.

The Companies are contingently liable for the performance of Liberty Corporate Capital Limited's ("LCCL") obligations under standby letters of credit in the aggregate amount of $930,478 of which $763,971 has been collateralized. As of December 31, 2006, there have been no drawings under the standby letters of credit.

The Companies guarantee the performance of LCCL under a credit agreement in the amount of the greater of $100,000, £65,000, or €85,000. As of December 31, 2006 there have been no drawings under the credit agreement.

The Company guarantees the future non-cancellable lease obligations of Liberty Information Technology Ltd. in the amount of $48,972 or £25,000.

The Companies guarantee the performance of Liberty Mutual Insurance Europe Limited ("LMIE") under a credit agreement in the amount of $20,000. As of December 31, 2006, there have been no drawings under the agreement.

The Companies guarantee obligations of Liberty Life Assurance Company of Boston on policies and contracts issued and is obligated to provide additional capital to that company necessary at any time to raise its Best Capital Adequacy Ratio to at least 150%.

The Companies guarantee obligations of Liberty Re (Bermuda) Limited under certain reinsurance policies issued.

LIBERTY MUTUAL INSURANCE COMPANY POOL

Notes to Combined Statutory Basis Financial Statements

(dollars in thousands)

The Companies guarantee obligations of LMIE on policies and contracts issued until such time as LMIE can achieve a Standard & Poor's rating as specified in the guarantee.

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 results of operations or the financial position of the Companies.

The Companies have been in various insurance coverage disputes with Armstrong World Industries ("Armstrong") for over twenty years relating to asbestos liabilities and insurance covering the period 1973 to 1981. The Companies have prevailed in a favorable arbitration ruling before an appellate panel regarding Armstrong's insurance coverage in July 2004. Armstrong filed a Chapter 11 Bankruptcy petition in the United States Bankruptcy Court for the District of Delaware in December 2000. A plan of reorganization was confirmed in August 2006, and Amstrong formally emerged from bankruptcy as of October 2, 2006. A declaratory judgment action, filed by Armstrong in 2002, is pending in the United States District Court for the Eastern District of Pennsylvania seeking coverage for asbestos claims under insurance policies issued to Armstrong during the period of 1973 to 1981, including, but not limited to, damages and a declaration regarding the availability, applicability and scope of alleged non-product coverage not subject to the aggregate limits of the policies. Armstrong contends that a significant portion of its asbestos liability arises from operations that would entitle Armstrong to insurance coverage under the disputed policies without regard to the aggregate limit of liability. The Pennsylvania action is currently in the initial pleading stages and inactive by agreement of the parties. In February 2004 Armstrong filed, in the same Pennsylvania District Court, a Motion to Vacate the appellate arbitration award that was favorable to the Companies. In turn, the Companies filed a Motion to Confirm the Appellate Panel's Award. Both motions remain pending at this time. The Companies intend to vigorously defend their position in all coverage litigation that may follow the bankruptcy proceedings, including any argument that coverage issues were finally determined in the bankruptcy proceedings. Management believes that the ultimate liability, if any, to Armstrong will not be resolved for at least one year and very likely may not be known for several years. In the opinion of management, the outcome of these pending matters is difficult to predict and in the event of an adverse outcome could have a material adverse effect on the Companies' results of operations, financial condition and liquidity.

(13) Subsequent Events

Pursuant to the approval of the appropriate state insurance departments, effective January 1, 2007, the Liberty Mutual Pool participation percentages were revised as follows:

	2007	2006
Liberty Mutual Insurance Company	75.9%	66.5%
Employers Insurance Company of Wausau	10.0%	16.0%
Liberty Insurance Corporation	3.0%	6.0%
Wausau General Insurance Company	0.0%	0.4%

On March 7, 2007 LMGI completed a debt offering with proceeds of $988,472 of which $836,100 was contributed to LMIC.

Report of Independent Auditors on
Other Financial Information

The Boards of Directors
Liberty Mutual Holding Company Inc.

Our audits were conducted for the purpose of forming an opinion on the combined statutory-basis financial statements of Liberty Mutual Insurance Company Pool taken as a whole. The accompanying supplemental investment disclosures are presented to comply with the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual and are not a required part of the combined statutory-basis financial statements. Additional disclosures of the combining statutory-basis balance sheets of the Liberty Mutual Insurance Company Pool as of December 31, 2006 and combining statutory-basis statements of income and changes in statutory surplus for the year then ended are presented for purpose of additional analysis and are not a required part of the combined statutory-basis financial statements. Such information has been subjected to auditing procedures applied in our audit of the combined statutory-basis financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined statutory-basis financial statements taken as a whole.

This report is intended solely for the information and use of the Liberty Mutual Insurance Company Pool and state insurance departments to whose jurisdiction the Liberty Mutual Insurance Company Pool are subject and is not intended to be used by anyone other than these specified parties.

Ernst + Young LLP

May 23, 2007

LIBERTY MUTUAL INSURANCE COMPANY POOL

Supplemental Schedule of Selected Financial Data

December 31, 2006

(dollars in thousands)

Reinsurance Interrogatories
December 31, 2006

1. Has the reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)? Yes [x] No [ ]

2. If yes, indicate the number of reinsurance contracts containing such provisions. 6

3. If yes, does the amount of reinsurance credit taken reflect the reduction in quota share coverage caused by any applicable limiting provision(s)? Yes [ ] No [x]

4. Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 3% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 3% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:

   (a) A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;

   (b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;

   (c) Aggregate stop loss reinsurance coverage;

   (d) An unconditional or unilateral right by either party to commute the reinsurance contract except for such provisions which are only triggered by a decline in the credit status of the other party;

(e) A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or

(f) Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity. Yes [x] No [ ]

5. Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member where:

(a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or

(b) Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates. Yes [x] No [ ]

6. If yes to 4 or 5, please provide the following information:

(a) The aggregate financial statement impact gross of all such ceded reinsurance contracts on the balance sheet and statement of income;

(b) A summary of the reinsurance contract terms and indicate whether it applies to the contracts meeting the criteria in 4 or 5; and

LIBERTY MUTUAL INSURANCE COMPANY POOL

Supplemental Schedule of Selected Financial Data

December 31, 2006

(dollars in thousands)

(c) A brief discussion of management's principle objectives in entering into the reinsurance contract including the economic purpose to be achieved.

	Financial Impact		
	(1) As Reported	(2) Reinsurance Effect	(3) Restated Without Reinsurance
A01. Assets		$43,441	
A02. Liabilities		($1,128,837)	
A03. Surplus as regards to policyholders		$1,172,278	
A04. Net Income		($36,572)	

(B) Summary of Reinsurance Contract Terms	(C) Management's Objectives
WC excess of loss treaty. Provides layers of aggregate protection for WC losses up to $1M. This contract is being reported pursuant to Interrogatory 9.1(c.)	To obtain excess coverage due to unpredictability of medical inflation and to obtain coverage on working layer workers' compensation losses.
WC excess of loss treaty. Provides layers of aggregate protection for WC losses of $9M xs $1M. This contract is being reported pursuant to Interrogatory 9.1(d.)	To obtain excess coverage due to unpredictability of medical inflation.
WC excess of loss treaty. Provides layers of aggregate protection for certain WC losses of $9.5M xs $500K. This contract is being reported pursuant to Interrogatory 9.1(d.)	To obtain excess coverage due to unpredictability of medical inflation.
WC excess of loss treaty. Provides layers of aggregate protection for certain WC losses of $9.5M xs $500K. This contract is being reported pursuant to Interrogatory 9.1(d.)	To obtain excess coverage due to unpredictability of medical inflation.
Uncapped quota share cession of the Company's Auto Physical Damage business to a subsidiary. This contract is being reported pursuant to Interrogatory 9.2(a.)	To achieve more effective capital management and to diversify subsidiary risk.
Uncapped quota share cession of the Company's Other Liability business to a subsidiary. This contract was non-renewed in 2005. This contract is being reported pursuant to Interrogatory 9.2(a.)	To achieve more effective capital management and to diversify subsidiary risk.
A multi-year property catastrophe reinsurance agreement with Mystic Re Ltd. ("Mystic Re"), a Cayman Islands domiciled Reinsurer, to provide $200 million of additional reinsurance coverage for LMIC and its affiliates, in the event of a Northeast hurricane. The reinsurance agreement is fully collateralized by proceeds received by Mystic Re from the issuance of catastrophe bonds, and provides coverage for hurricane related losses from Washington D.C. to Maine for the 2006-2008 hurricane seasons. The reinsurance limit is proportionally available, based on industry insured	To cede excess catastrophe exposure.

(dollars in thousands)

losses between $30 billion and $40 billion in the covered area, as reported by Property Claim Services ("PCS"), and is exhausted with the full $200 million available; in the event of PCS reported industry insured losses exceeding $40 billion. This contract is being reported pursuant to Interrogatory 9.2(a.)	
Additional limits from Mystic Re Ltd. ("Mystic Re"), a Cayman Islands domiciled Reinsurer, with the same geographic exposure, for the 2007-2008 hurricane seasons. One portion of the new transaction supplements the original layer by $200 million, bringing the total limits to $400 million. A second placement was purchased from Mystic Re to provide coverage of $125 million, applied proportionately to industry insured losses as reported by PCS between $12.5 billion and $25 billion. This contract is being reported pursuant to Interrogatory 9.2(a.)	To cede excess catastrophe exposure.
Uncapped quota share cession of the Company's Auto business. This contract is being reported pursuant to Interrogatory 9.2(a.)	To achieve more effective capital management and to diversify risk.
Uncapped quota share cession of the Company's business. This contract is being reported pursuant to Interrogatory 9.2(a.)	To achieve more effective capital management and to diversify risk.
Uncapped quota share cession of the Company's business. This contract is being reported pursuant to Interrogatory 9.2(a.)	To achieve more effective capital management and to diversify risk.
Uncapped quota share cession of the Company's Auto business. This contract is being reported pursuant to Interrogatory 9.2(a.)	To achieve more effective capital management and to diversify risk.
Uncapped quota share cession of the Company's Auto business. This contract is being reported pursuant to Interrogatory 9.2(a.)	To achieve more effective capital management and to diversify risk.
The Company has stop-loss reinsurance coverage for certain distribution channels the Company did not desire to acquire as part of the acquisition from Prudential Financial, Inc. This contract is being reported pursuant to Interrogatory 9.2(a.)	Entered into to reinsure certain liabilities that the Company did not desire to acquire with an affiliate of Prudential Financial, Inc. as part of the acquisition of the Company by Liberty Mutual.
Vantage Excluded Business Aggregate Excess of Loss Reinsurance Agreement - provides stop-loss reinsurance coverage for certain liabilities that the Company did not desire to acquire as part of the acquisition from Prudential Financial, Inc. This contract is being reported pursuant to Interrogatory 9.1(a.)	The Vantage Excluded Business Aggregate Excess of Loss Reinsurance Agreement and the Vantage Discontinued Channels Aggregate Excess of Loss Reinsurance Agreement were entered into to reinsure certain liabilities that the Company did not

	desire to acquire with an affiliate of Prudential Financial, Inc. as part of the acquisition of the Company by Liberty Mutual.
Vantage Discontinued Channels Aggregate Excess of Loss Reinsurance Agreement - provides stop-loss reinsurance coverage for certain distribution channels the Company did not desire to acquire as part of the acquisition from Prudential Financial, Inc. This contract is being reported pursuant to Interrogatory 9.1(a.) and 9.2(a.)	The Vantage Excluded Business Aggregate Excess of Loss Reinsurance Agreement and the Vantage Discontinued Channels Aggregate Excess of Loss Reinsurance Agreement were entered into to reinsure certain liabilities that the Company did not desire to acquire with an affiliate of Prudential Financial, Inc. as part of the acquisition of the Company by Liberty Mutual.
General Reinsurance Corporation - provides aggregate ultimate net loss coverage for certain lines of business. This contract is being reported pursuant to Interrogatory 9.1(c.)	The General Reinsurance Corporation contract was negotiated and executed prior to Liberty Mutual's acquisition of Prudential Property and Casualty Insurance Company.
Everest Reinsurance Holdings, Inc. Quota Share Agreement provides 100% quota share coverage for certain lines of business acquired through a distribution agreement with the Reinsurer. This contract is being reported pursuant to Interrogatory 9.1(a.) and 9.1(c.)	The Prudential Property and Casualty Insurance Company entered the agreement with Everest Reinsurance Holdings, Inc. prior to the acquisition by Liberty Mutual.

7. Except for transactions meeting the requirements of paragraph 30 of SSAP No. 62, *Property and Casualty Reinsurance*, has the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:

(a) Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles ("SAP") and as a deposit under generally accepted accounting principles ("GAAP"); or

(b) Accounted for that contract as reinsurance under GAAP and as a deposit under SAP? Yes [ ] No [x]

8. If yes to 7, explain why the contract(s) is treated differently for GAAP and SAP. N/A

LIBERTY MUTUAL INSURANCE COMPANY POOL

Supplemental Schedule of Selected Financial Data

December 31, 2006

(dollars in thousands)

Investment Risks Interrogatories

1. The Liberty Mutual Insurance Company Pool ("the Companies") total admitted assets as reported on page two of the Companies' Annual Statements for the year ended December 31, 2006 is $40,153,497.

2. Following are the 10 largest exposures to a single issuer/borrower/investment, by investment category excluding (i) U.S. government, U.S. government agency securities and those U.S. government money market funds listed in the Appendix to the *SVO Purposes and Procedures Manual* as exempt, (ii) property occupied by the Companies and (iii) policy loans.

Name of Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
a. Govt of Canada	Bonds	$279,583	0.70%
b. Govt of Brazil	Bonds	218,183	0.54%
c. State of Pennsylvania	Bonds	194,490	0.48%
d. Florida Board of Education	Bonds	158,858	0.40%
e. Citigroup, Inc.	Bonds & Stocks	157,508	0.39%
f. Tacoma Electric	Bonds	145,489	0.36%
g. Comm of Massachusetts	Bonds	133,402	0.33%
h. University of California	Bonds	132,818	0.33%
i. City of San Antonio	Bonds	127,986	0.32%
j. Wells Fargo	Bonds & Stocks	126,524	0.32%

3. The Companies' total admitted assets held in bonds, preferred stocks and short-term investments by NAIC rating at December 31, 2006, are:

Bonds	Amount	Percentage of Total Admitted Assets	Preferred Stocks	Amount	Percentage of Total Admitted Assets
NAIC-1	$ 21,164,102	52.71%	P/RP-1	$ 315,733	0.79%
NAIC-2	1,638,704	4.08%	P/RP-2	3,096	0.01%
NAIC-3	586,507	1.46%	P/RP-3	20,527	0.05%
NAIC-4	587,456	1.47%	P/RP-4	-	0.00%
NAIC-5	69,214	0.17%	P/RP-5	-	0.00%
NAIC-6	-	0.00%	P/RP-6	-	0.00%
	$ 24,045,983	59.89%		$ 339,356	0.85%

4. The Companies' total admitted assets held in foreign investments (regardless of whether there is any foreign currency exposure) and unhedged foreign currency exposure (defined as the statement value of investments denominated in foreign currencies which are not hedged by financial instruments qualifying for hedge accounting as specified in SSAP No. 86—Accounting for Derivative Instruments and Hedging, Income Generation, and Replication (Synthetic Asset) Transactions), including (i) foreign-currency-denominated investments of $962,452 supporting insurance liabilities denominated in that same foreign currency of $204,661 and excluding (ii) Canadian investments and currency exposure of $755,880 as of December 31, 2006, are $1,395,286. Foreign investments are less than 2.5% of the Companies' total admitted assets.

(dollars in thousands)

5. The Companies' total admitted assets held in Canadian investments and unhedged Canadian currency exposure, including Canadian-currency-denominated investments of $600,269 supporting Canadian-denominated insurance liabilities of $279,346 at December 31, 2006, are $755,880.

   Aggregate Canadian investment exposure:

	Amount	Percentage of Total Admitted Assets
a. Total admitted assets held in Canadian investments	$755,880	1.88%
b. Canadian-currency-denominated investments	600,269	1.49%
c. Canadian-denominated insurance liabilities	279,346	0.70%
d. Unhedged Canadian currency exposure	600,269	1.49%

6. The Companies did not hold any investments with contractual sales restrictions (defined as investments having restrictions that prevent investments from being sold within 90 days).

7. The Companies' admitted assets held in the largest 10 equity interests (including investments in the shares of mutual funds, preferred stocks, publicly traded equity securities, and other equity securities (including BA equity interests), and excluding money market and bond mutual funds listed in the Appendix to the *SVO Practices and Procedures Manual* as exempt or Class 1) at December 31, 2006, are:

Name of Issuer	Amount	Percentage of Total Admitted Assets
a. LMIA High Yield Fund	$ 88,441	0.22%
b. Bank of America Corp.	82,620	0.21%
c. Lion Gables Apartment Fund, L.P.	74,179	0.18%
d. US Bancorp	67,581	0.17%
e. Merril Lynch & Co	58,863	0.15%
f. Massachusetts Property & Casualty LP	55,497	0.14%
g. Goldman Sachs Group	54,390	0.14%
h. Fannie Mae	52,932	0.13%
i. Exxon Mobil	41,746	0.10%
j. Summit Ventures VI-A LP	41,520	0.10%

8. The Companies' assets held in nonaffiliated, privately placed equities (included in other equity securities) and excluding securities eligible for sale under (i) Securities and Exchange Commission (SEC) Rule 144a or (ii) SEC Rule 144 without volume restrictions as of December 31, 2006, is less than 2.5% of the Companies' total admitted assets.

9. The Companies' total admitted assets held in general partnership interests (included in other equity securities) at December 31, 2006, are less than 2.5% of the Companies' total admitted assets.

10. Mortgage loans are less than 2.5% of the Companies' total admitted assets as of December 31, 2006.

11. Real Estate holdings are less than 2.5% of the Companies' total admitted assets as of December 31, 2006.

12. The Companies' total admitted assets are subject to the following types of agreements as of:

LIBERTY MUTUAL INSURANCE COMPANY POOL

Supplemental Schedule of Selected Financial Data

December 31, 2006

(dollars in thousands)

	December 31, 2006		March 31, 2006	June 30, 2006	September 30, 2006
	Amount	Percentage of Total Admitted Assets	Amount	Amount	Amount
a. Securities lending (do not include assets held as collateral for such transactions)	$627,022	1.56%	$641,489	$674,086	$734,655

13. The Companies' total admitted assets are not subject to repurchase agreements, reverse repurchase agreements and dollar reverse repurchase agreements as of or for any period during the year ended December 31, 2006.

14. The Companies did not hold any warrants not attached to other financial instruments, options, caps, and floors at December 31, 2006.

15. The Companies did not hold any potential exposure for collars, swaps, and forwards at December 31, 2006.

16. The Companies did not have potential exposure for futures contracts at December 31, 2006.

LIBERTY MUTUAL INSURANCE COMPANY POOL

Supplemental Schedule of Selected Financial Data

December 31, 2006

(dollars in thousands)

Summary Investment Schedule

Investment Categories	Gross Investment Holdings*	Percentage of Gross Investment Holdings	Admitted Assets as Reported in the Annual Statement	Percentage of Admitted Invested Assets
Bonds:				
US Treasury Securities	$ 2,209,293	6.55%	$ 2,209,293	6.55%
US government agency and corporate obligations (excluding mortgage-backed securities)				
Issued by US Government Agencies	937,928	2.78%	937,928	2.78%
Issued by US Government-sponsored agencies	595,593	1.77%	595,593	1.77%
Foreign Government (including Canada, excluding mortgage- backed securities)	759,430	2.25%	759,430	2.25%
Securities Issued by States, Territories and Possessions and Political Subdivisions in the U.S.:				
State, territory and possessions - general obligations	1,486,933	4.41%	1,486,933	4.41%
Political subdivisions of states, territories and possessions – general obligations	986,526	2.92%	986,526	2.93%
Revenue and assessment obligations	2,453,353	7.27%	2,453,353	7.27%
Industrial development and similar obligations	182	0.00%	182	0.00%
Mortgage-backed securities (includes residential and commercial MBS):				
Pass-through securities:				
Issued or Guaranteed by GNMA	495,521	1.47%	495,521	1.47%
Issued or Guaranteed by FNMA and FHLMC	3,423,234	10.15%	3,423,234	10.15%
CMOs and REMICs				
Issued or Guaranteed by GNMA, FNMA, FHLMC or VA	2,072,368	6.14%	2,072,368	6.14%
Privately issued and collateralized by MBS issued or guaranteed by GNMA, FNMA, or FHLMC or VA	85,295	0.25%	85,295	0.25%
All Other	928,283	2.75%	928,283	2.75%
Other debt and other fixed income securities (excluding short-term):				
Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	5,755,323	17.07%	5,755,323	17.07%
Unaffiliated foreign securities	618,070	1.83%	618,070	1.83%
Equity interests:				
Investment in mutual funds	118,517	0.35%	118,517	0.35%
Preferred stocks:				
Affiliated	131	0.00%	131	0.00%
Unaffiliated	339,356	1.01%	339,356	1.01%
Publicly traded equity securities (excluding preferred stocks)				
Unaffiliated	1,651,112	4.90%	1,651,112	4.90%
Other equity securities:				
Affiliated	2,651,619	7.86%	2,651,619	7.86%
Mortgage Loans on Real Estate				
Commercial Loans	282,382	0.84%	282,382	0.84%
Real Estate Investments:				
Property occupied by Companies	345,746	1.03%	345,746	1.03%
Property held for production of income	1,111	0.00%	1,111	0.00%
Receivables for securities	61,476	0.18%	61,476	0.18%
Cash and short term investments	1,680,955	4.98%	1,680,955	4.98%
Other Invested Assets:				
Affiliated	2,631,273	7.80%	2,631,273	7.80%
Unaffiliated	1,158,251	3.44%	1,158,251	3.44%
Total Cash and Invested Assets	$33,729,261	100.00%	$33,729,261	100.00%

LIBERTY MUTUAL INSURANCE COMPANY POOL

Supplemental Schedule of Selected Financial Data

December 31, 2006

(dollars in thousands)

* Gross investment holdings as valued in compliance with NAIC Accounting Practices & Procedures Manual.

Liberty Mutual Insurance Company Pool

Note to the Supplemental Schedule of Selected Financial Data

December 31, 2006

Basis of Presentation

The accompanying supplemental schedule of selected financial data presents selected combined investment statutory financial data as of December 31, 2006, and for the year then ended for purposes of complying with the National Association of Insurance Commissioners' (NAIC) Accounting Practices and Procedures Manual and agrees to or is included in the amounts reported in the Liberty Mutual Insurance Company Pool members' 2006 Statutory Annual Statements as filed with the applicable domiciliary state insurance departments.

LIBERTY MUTUAL INSURANCE COMPANY POOL
Combined Statutory Basis Balance Sheet
As of Dec 31, 2006
(dollars in thousands)

	Liberty Mutual Insurance Company	Liberty Mutual Fire Insurance Company	Liberty Insurance Corporation	LM Insurance Corporation	First Liberty Insurance Corporation	Employers Insurance Company of Wausau	Wausau General Insurance Company	Wausau Underwriters Insurance Company	Wausau Business Insurance Company	Bridgefield Employers Insurance Company	Bridgefield Casualty Insurance Company	Liberty Insurance Underwriters	Liberty Lloyds of Texas Insurance Company	Liberty Mutual Personal Insurance Company
Admitted Assets														
Investments:														
Fixed maturities	14,335,788	2,176,449	1,327,143	51,110	35,825	3,853,602	92,364	156,330	111,615	144,113	49,359	94,702	4,503	-
Common and preferred stocks	1,725,849	224,844	73,265	752	1,381	82,892	-	-	-	-	-	(0)	-	-
Investment in affiliates	6,188,972	69,945	-	-	-	14,834	-	-	-	29,400	-	-	-	-
Cash and short-term investments	1,207,666	176,044	41,141	3,536	2,149	123,330	9,395	9,355	16,817	6,511	13,308	(27,888)	1,208	4,459
Companies-occupied properties	326,163	-	-	-	-	19,583	-	-	-	-	-	-	-	-
Other invested assets	1,147,894	175,663	50,993	6	1	122,565	2,015	2,005	2,003	10	24	-	-	-
Total cash and invested assets	24,912,332	2,822,945	1,492,542	55,404	39,356	4,216,806	103,774	167,690	130,435	180,034	62,691	66,814	5,711	4,459
Premiums receivable, net	2,828,086	427,174	256,304	8,543	4,272	734,652	17,087	17,087	17,087	51,236	5,739	(0)	-	-
Deferred tax asset, net	555,086	80,535	45,989	1,382	692	130,009	2,774	2,767	2,766	(765)	(40)	(11)	-	-
Reinsurance recoverable on paid losses, net	740,190	-	-	-	-	65,796	970	21,703	10,120	21,638	11,795	23,936	-	-
Receivable from affiliates	76,514	6,241	6,771	30	242	7,152	(1,079)	(6,627)	(5,604)	(70,640)	8,506	39,394	(0)	-
Funds held by affiliates and other reinsurers	76,960	-	-	-	-	(825)	-	-	-	-	-	-	-	-
Other admitted assets	756,086	63,865	48,876	1,830	1,059	137,735	3,370	4,116	3,723	1,384	596	(15,887)	60	19
Total Admitted Assets	29,747,254	3,420,780	1,850,482	67,189	45,621	5,291,325	126,896	206,736	158,527	182,887	89,289	114,246	5,771	4,478
Liabilities and Surplus														
Liabilities:														
Unpaid claims	10,169,462	1,529,242	917,545	30,585	15,292	2,446,788	61,170	61,170	61,170	(0)	0	(0)	-	-
Unpaid claim adjustment expenses	2,084,591	313,472	186,083	6,269	3,135	501,556	12,539	12,539	12,539	-	-	-	-	-
Unearned premiums	3,114,706	468,377	281,026	9,368	4,684	749,403	18,735	18,735	18,735	(0)	0	-	-	-
Other liabilities and accrued expenses	1,135,105	126,297	77,871	991	951	206,220	2,134	3,092	5,869	19,207	3,667	13,721	(0)	-
Collateral held for securities loaned	407,095	22,157	24,920	-	-	36,817	4,022	8,836	6,896	-	-	-	-	-
Funds held under reinsurance contracts	1,666,405	-	-	-	-	37,435	-	-	-	-	-	193	-	-
Ceded reinsurance premium payable	819,146	-	-	-	-	43,299	(251)	14,446	4,187	41,836	18,519	27,194	-	-
Taxes, licenses and fees accrued	208,365	31,333	18,800	627	313	50,133	1,253	1,253	1,253	35,054	37,926	-	(0)	-
Federal income taxes accrued	(13,750)	15,750	12,197	356	225	10,341	776	614	573	976	285	770	17	62
Policyholders dividends accrued	4,000	602	361	12	7	962	24	24	25	(0)	0	-	-	-
Total Liabilities	19,795,125	2,507,230	1,520,803	48,208	24,607	4,082,954	100,402	120,709	111,247	97,073	60,397	41,878	17	62
Surplus:														
Surplus notes	1,013,209	-	-	-	-	-	-	-	-	-	-	-	-	-
Special and other surplus funds	812,386	123,225	73,185	2,440	1,220	195,160	4,879	4,879	4,879	-	-	-	2,000	-
Contributed capital	3,158,160	185,000	159,663	11,000	11,000	345,000	21,399	79,648	53,800	43,324	22,500	63,530	3,000	4,300
Unassigned surplus	4,968,374	605,305	96,831	5,541	8,794	668,211	216	1,500	(11,399)	42,490	6,392	8,838	754	116
Total surplus	9,952,129	913,530	329,679	18,981	21,014	1,208,371	26,494	86,027	47,280	85,814	28,892	72,368	5,754	4,416
Total liabilities and surplus	29,747,254	3,420,760	1,850,482	67,189	45,621	5,291,325	126,896	206,736	158,527	182,887	89,289	114,246	5,771	4,478

LIBERTY MUTUAL INSURANCE COMP
Combined Statutory Basis Balance Sheet
As of Dec 31, 2006
(dollars in thousands)

	Liberty Insurance Company of America	Liberty Surplus Insurance Corporation	Liberty Personal Insurance Company	Liberty County Mutual Insurance Company	LM Property and Casualty Insurance Company	LM Personal Insurance Company	LM General Insurance Company	Liberty Eliminations	Reclasses	Adjustments	Liberty Pooled and Fronted Companies
Admitted Assets											
Investments:											
Fixed maturities	8,485	44,377	21,244	13,822	280,404	7,855	9,195	(10,953)	-	-	22,807,332
Common and preferred stocks	-	-	-	-	1	-	-	-	-	1	2,108,985
Investment in affiliates	-	-	-	-	-	-	-	(1,000,127)	-	(1)	5,283,023
Cash and short-term investments	2,565	20,038	54	39	48,876	2,398	4,163	15,993	-	(2)	1,680,955
Companies-occupied properties	-	-	-	-	-	-	-	-	-	-	345,746
Other invested assets	4	1	0	1	33	-	-	-	-	2	1,503,220
Total cash and invested assets	11,054	64,416	21,298	13,862	329,114	10,253	13,358	(995,087)	-	-	33,729,261
Premiums receivable, net	-	(0)	-	186	282	-	-	-	(322,194)	(2)	3,845,519
Deferred tax asset, net	(34)	(30)	(14)	(0)	1,154	(12)	0	-	-	1	822,249
Reinsurance recoverable on paid losses, net	-	11,593	2,485	78	14,872	334	2,069	-	(331,700)		595,878
Receivable from affiliates	(11)	39,568	(2,289)	(1,587)	(42,611)	(2,722)	(4,316)	-	-	1	46,755
Funds held by affiliates and other reinsurers	-	-	-	-	621	-	-	(0)	825	-	79,581
Other admitted assets	96	643	254	210	3,041	105	82	2,839	151	(1)	1,034,254
Total Admitted Assets	11,105	116,190	21,754	12,729	306,273	7,958	11,193	(992,248)	(652,918)	(1)	40,153,497
Liabilities and Surplus											
Liabilities:											
Unpaid claims	-	-	-	-	103,260	-	755	-	-	-	15,396,439
Unpaid claim adjustment expenses	-	(0)	-	(0)	2,261	-	10	-	12,648	-	3,149,642
Unearned premiums	-	(0)	-	-	-	-	-	-	-	-	4,683,768
Other liabilities and accrued expenses	0	7,476	(0)	197	13,959	22	144	390	(344,197)	-	1,273,118
Collateral held for securities loaned	-	-	-	-	28,707	1,692	4,097	-	-	-	545,239
Funds held under reinsurance contracts	-	10,343	-	-	4,249	291	654	(0)	825	-	1,920,397
Ceded reinsurance premium payable	-	35,070	-	162	(106)	(6)	(2)	-	(322,194)	(1)	681,299
Taxes, licenses and fees accrued	(0)	0	-	(3)	0	(0)	0	-	-	-	386,307
Federal income taxes accrued	107	(309)	46	312	(3,532)	165	134	-	-	-	26,116
Policyholders dividends accrued	-	-	-	-	-	-	-	-	-	(2)	6,015
Total Liabilities	107	52,582	46	668	148,798	2,164	5,792	390	(652,918)	-	28,068,340
Surplus:											
Surplus notes	-	-	-	10,000	-	-	-	(10,000)	-	-	1,013,209
Special and other surplus funds	-	-	-	-	-	-	-	(2,000)	-	-	1,222,253
Contributed capital	10,500	56,000	21,054	-	155,951	5,557	5,512	(723,436)	-	(2)	3,692,460
Unassigned surplus	498	7,608	854	2,061	1,524	237	(111)	(257,202)	-	3	8,157,235
Total surplus	10,998	63,608	21,708	12,061	157,475	5,794	5,401	(992,638)	-	1	12,085,157
Total liabilities and surplus	11,105	116,190	21,754	12,729	306,273	7,958	11,193	(992,248)	(652,918)	1	40,153,497

LIBERTY MUTUAL INSURANCE COMPANY POOL
Combined Statutory Statements of Income
Year ended, December 31, 2006
(dollars in thousands)

	Liberty Mutual Insurance Company	Liberty Mutual Fire Insurance Company	Liberty Insurance Corporation	LM Insurance Corporation	First Liberty Insurance Corporation	Employers Insurance Company of Wausau	Wausau General Insurance Company	Wausau Underwriters Insurance Company	Wausau Business Insurance Company	Bridgefield Employers Insurance Company	Bridgefield Casualty Insurance Company	Liberty Insurance Underwriters	Liberty Lloyds of Texas Insurance Company
Premiums earned	$ 7,561,990	$ 1,137,141	$ 682,285	$ 22,743	$ 11,371	$ 1,819,426	$ 45,466	$ 45,466	$ 45,486	$ -	$ (0)	$ -	$ -
Claims	4,620,877	694,869	416,921	13,697	6,949	1,111,790	27,795	27,795	27,795	(0)	-	-	-
Claim adjustment expenses	1,154,044	173,540	104,124	3,471	1,735	277,665	6,942	6,942	6,942	0	0	(0)	-
Underwriting and other expenses	1,731,712	260,209	156,125	5,204	2,602	418,334	10,408	10,408	10,408	(29,042)	(14,749)	0	(0)
Premium and other taxes and assessments	294,958	44,355	26,613	867	444	70,967	1,774	1,774	1,774	29,042	14,749	-	0
Total underwriting expenses	7,801,591	1,172,973	703,783	23,459	11,730	1,876,756	46,919	46,919	46,919	0	0	0	(0)
Underwriting loss before dividends	(239,601)	(35,832)	(21,498)	(716)	(359)	(57,330)	(1,433)	(1,433)	(1,433)	(0)	(0)	(0)	0
Policyholder dividends	33,933	5,103	3,062	102	51	8,164	204	204	204	-	-	-	-
Underwriting loss	(273,534)	(40,935)	(24,560)	(818)	(410)	(65,494)	(1,637)	(1,637)	(1,637)	(0)	(0)	(0)	0
Net investment income	1,551,031	122,874	72,696	2,714	1,900	195,676	6,251	9,090	6,068	8,812	3,051	6,781	214
Realized investment gains, net	117,582	9,801	5,033	-	-	6,784	376	310	(26)	(237)	(10)	(29)	-
Other loss, net	(78,675)	(8,303)	(4,900)	(162)	(88)	(13,853)	(327)	(327)	(327)	-	-	(44)	-
Income before income taxes	1,316,404	83,437	48,269	1,734	1,402	123,113	4,663	7,436	4,078	8,575	3,041	6,708	214
Federal and foreign income taxes	326,472	30,445	24,506	1,055	661	32,992	1,603	1,211	1,088	2,954	1,029	2,340	65
Net income	$ 989,932	$ 52,992	$ 23,763	$ 679	$ 741	$ 90,121	$ 3,060	$ 6,225	$ 2,990	$ 5,621	$ 2,012	$ 4,368	$ 149

See accompanying notes to combined statutory basis financial statements.

(A) Eliminations represent intercompany transactions and balances for each account.

LIBERTY MUTUAL INSURANCE COMPANY POOL
Combined Statutory Statements of Income
Year ended, December 31, 2006
(dollars in thousands)

	Liberty Mutual Personal Insurance Company	Liberty Insurance Company of America	Liberty Surplus Insurance Corporation	Liberty Personal Insurance Company	Liberty County Mutual Insurance Company	LM Property and Casualty Insurance Company	LM Personal Insurance Company	LM General Insurance Company	Liberty Eliminations (A)	Adjustments	Liberty Pooled and Fronted Companies
Premiums earned	$ -	$ -	$ -	$ -	$ 0	$ 13	$ -	$ -	$ -		$ 11,371,427
Claims	-	-	0	0	(0)	(231)	(0)	(1)	-	(1)	8,948,455
Claim adjustment expenses	-	-	-	-	(0)	2,878	0	10	-	(1)	1,738,292
Underwriting and other expenses	-	-	0	-	(49)	(0)	(0)	(0)	-	2	2,559,572
Premium and other taxes and assessments	-	-	0	-	(337)	0	0	(0)	-		487,000
Total underwriting expenses	-	(0)	(0)	(0)	(386)	2,647	(0)	9	-		11,733,319
Underwriting loss before dividends	-	0	0	0	386	(2,634)	0	(9)	-		(361,892)
Policyholder dividends	-	-	-	-	-	-	-	-	-	1	51,028
Underwriting loss	-	0	0	0	386	(2,634)	0	(9)	-	(1)	(412,920)
Net investment income	178	883	2,286	1,030	529	36,826	847	693	(194,368)	(1)	1,836,061
Realized investment gains, net	-	200	(4)	(68)	-	(5,870)	243	(137)	25,998	-	159,946
Other loss, net	-	-	135	-	54	0	-	-	-		(106,617)
Income before income taxes	178	1,083	2,417	962	969	28,322	1,090	547	(168,370)	(2)	1,478,270
Federal and foreign income taxes	62	355	832	353	141	(71)	289	146	-	(4)	428,524
Net income	$ 116	$ 728	$ 1,585	$ 609	$ 828	$ 28,393	$ 801	$ 401	$ (168,370)	$ 2	$ 1,047,746

See accompanying notes to combined statutory basis financial stat

(A) Eliminations represent intercompany transactions and balances

LIBERTY MUTUAL INSURANCE COMPANY POOL
Combined Statements of Changes in Statutory Surplus
Year ended December 31, 2006
(dollars in thousands)

	Liberty Mutual Insurance Company	Liberty Mutual Fire Insurance Company	Liberty Insurance Corporation	LM Insurance Corporation	First Liberty Insurance Corporation	Employers Insurance Company of Wausau	Wausau General Insurance Company	Wausau Underwriters Insurance Company	Wausau Business Insurance Company	Bridgefield Employers Insurance Company	Bridgefield Casualty Insurance Company	Liberty Insurance Underwriters	Liberty Lloyds of Texas Insurance Company	Liberty Mutual Personal Insurance Company
Statutory surplus, beginning of year	$ 7,924,696	$ 829,974	$ 290,797	$ 18,528	$ 20,376	$ 1,070,662	$ 53,806	$ 105,687	$ 44,719	$ 85,813	$ 27,984	$ 63,003	$ 5,605	$ -
Add (deduct):														
Net income	989,932	52,992	23,763	679	741	90,121	3,060	6,225	2,990	5,621	2,012	4,368	149	116
Change in net unrealized capital gains (losses):														
From unconsolidated subsidiaries	445	2,352	-	-	-	353	-	-	-	928	-	-	-	-
From non-affiliated securities	218,902	33,271	6,423	6	12	12,866	55	147	55	26	-	109	-	-
Contributed capital	878,363	-	-	-	-	-	(17,601)	(2,213)	-	-	-	-	-	4,300
Change in non-admitted assets	(68,312)	1,165	699	23	12	2,053	47	47	47	(322)	155	784	-	-
Change in net admitted deferred tax asset	(30,172)	(6,723)	7,776	(262)	(130)	27,210	(533)	(523)	(543)	(1,795)	(712)	(90)	-	-
Dividends paid	(2,164)	-	-	-	-	-	(12,353)	(23,355)	-	(4,248)	(547)	-	-	-
Other surplus changes, net	40,350	500	221	7	3	5,106	13	12	12	(209)	-	4,194	0	-
Statutory surplus, end of year	$ 9,952,040	$ 913,531	$ 329,679	$ 18,981	$ 21,014	$ 1,208,371	$ 26,494	$ 86,027	$ 47,280	$ 85,814	$ 28,892	$ 72,368	$ 5,754	$ 4,416

See accompanying notes to combined statutory basis financial statements.

(A) Eliminations represent intercompany transactions and balances for each account.

LIBERTY MUTUAL INSURANCE COMPANY POOL
Combined Statements of Changes in Statutory Surplus
Year ended December 31, 2006
(dollars in thousands)

	Liberty Insurance Company of America	Liberty Surplus Insurance Corporation	Liberty Personal Insurance Company	Liberty County Mutual Insurance Company	LM Property and Casualty Insurance Company	LM Personal Insurance Company	LM General Insurance Company	(A) Liberty Eliminations	Adjustments	Liberty Pooled and Fronted Companies
Statutory surplus, beginning of year	$ 19,240	$ 30,428	$ 21,054	$ 11,232	$ 701,369	$ 15,733	$ 14,826	$ (1,527,431)	$ 1	$ 9,828,102
										-
Add (deduct):										-
Net income	728	1,585	609	829	28,393	801	401	(168,370)	1	1,047,746
Change in net unrealized capital gains (losses):										
From unconsolidated subsidiaries	-	-	-	-	-	-	-	83,746	-	87,824
From non-affiliated securities	-	-	-	-	269	-	-	(5,808)	(1)	266,332
Contributed capital	-	30,000	-	-	(439,275)	(1,443)	(2,488)	433,020		882,663
Change in non-admitted assets	-	-	-	-	-	-	-	0	(2)	(63,604)
Change in net admitted deferred tax asset	(25)	(30)	45	0	(4,947)	(7)	0	-	(7)	(11,468)
Dividends paid	(8,945)	-	-	-	(128,291)	(9,290)	(7,338)	194,368	(1)	(2,164)
Other surplus changes, net	0	1,624	0	(0)	(43)	(0)	0	(2,163)	99	49,726
Statutory surplus, end of year	$ 10,998	$ 63,607	$ 21,708	$ 12,061	$ 157,475	$ 5,794	$ 5,401	$ (992,638)	$ 90	$ 12,085,157

See accompanying notes to combined statutory basis financial sta

(A) Eliminations represent intercompany transactions and balance

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ERNST & YOUNG

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Report of Independent Auditors

The Board of Directors
Liberty Mutual Holding Company Inc.

We have audited the accompanying combined statutory-basis balance sheets of the Liberty Mutual Insurance Company Pool (the Companies) as of December 31, 2007 and 2006, and the related combined statutory-basis 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. We were not engaged to perform an audit of the Companies' internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Companies' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and 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. The effects on the financial statements of these variances are not reasonably determinable but are presumed to be material.

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 the Companies at December 31, 2007 and 2006, or the results of their operations or their cash flows for the years then ended.

However, in our opinion, the combined statutory-basis financial statements referred to above present fairly, in all material respects, the combined statutory-basis financial position of the Companies at December 31, 2007 and 2006, and the combined statutory-basis 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.

Ernst + Young LLP

May 9, 2008

Liberty Mutual Insurance Company Pool

Combined Statutory-Basis Balance Sheets

December 31, 2007 and 2006

(dollars in thousands)

Admitted Assets	2007	2006
Investments:		
Fixed maturities	$21,830,256	$22,807,332
Common and preferred stocks	2,409,802	2,108,985
Investments in affiliates	8,503,312	5,283,023
Cash and short-term investments	1,299,363	1,680,955
Companies-occupied properties	440,899	345,746
Other invested assets	2,199,242	1,503,220
Total cash and invested assets	36,682,874	33,729,261
Premiums receivable, net	3,826,554	3,845,519
Deferred tax asset, net	834,332	822,249
Federal and foreign income taxes receivable	72,133	-
Reinsurance recoverable on paid losses, net	637,927	595,878
Receivable from affiliates	109,791	46,755
Funds held by affiliates and other reinsurers	28,704	79,581
Other admitted assets	1,023,229	1,034,254
Total admitted assets	$43,215,544	$40,153,497

Liabilities and Surplus	2007	2006
Liabilities:		
Unpaid claims	$16,631,784	$15,396,439
Unpaid claim adjustment expenses	3,391,666	3,149,642
Unearned premiums	4,846,758	4,683,768
Other liabilities and accrued expenses	979,697	1,273,118
Collateral held for securities loaned	211,045	545,239
Funds held under reinsurance contracts	1,911,152	1,920,397
Ceded reinsurance premiums payable	722,002	681,299
Taxes, licenses and fees accrued	403,618	386,307
Federal and foreign income taxes accrued	-	26,116
Policyholder dividends accrued	16,868	6,015
Total liabilities	29,114,590	28,068,340
Surplus:		
Surplus notes	891,966	1,013,209
Special and other surplus funds	1,252,665	1,222,253
Contributed capital	4,893,251	3,692,460
Unassigned surplus	7,063,072	6,157,235
Total surplus	14,100,954	12,085,157
Total liabilities and surplus	$43,215,544	$40,153,497

See accompanying notes to the combined statutory-basis financial statements.

Liberty Mutual Insurance Company Pool

Combined Statutory-Basis Statements of Income

Years ended December 31, 2007 and 2006

(dollars in thousands)

	2007	2006
Premiums earned	$11,800,710	$11,371,427
Claims	7,307,054	6,948,455
Claim adjustment expenses	1,872,083	1,738,292
Underwriting and other expenses	2,766,075	2,559,572
Premium and other taxes and assessments	509,179	487,000
Total underwriting expenses	12,454,391	11,733,319
Underwriting loss before dividends	(653,681)	(361,892)
Policyholder dividends	69,773	51,028
Underwriting loss	(723,454)	(412,920)
Net investment income	1,536,113	1,836,061
Realized investment gains, net	249,613	159,946
Other loss, net	(135,626)	(106,817)
Income before income taxes	926,646	1,476,270
Federal and foreign income taxes	193,752	428,524
Net income	$ 732,894	$ 1,047,746

See accompanying notes to the combined statutory-basis financial statements.

Liberty Mutual Insurance Company Pool

Combined Statements of Changes in Statutory Surplus

Years ended December 31, 2007 and 2006

(dollars in thousands)

	2007	2006
Statutory surplus, beginning of year	$12,085,157	$9,828,102
Add (deduct):		
Net income	732,894	1,047,746
Change in net unrealized capital gains (losses):		
From unconsolidated subsidiaries	431,792	87,824
From non-affiliated securities	14,736	266,332
Contributed capital	1,200,791	882,663
Change in non-admitted assets	(339,744)	(63,604)
Change in net admitted deferred tax asset	11,980	(11,468)
Dividends paid	(4,373)	(2,164)
Surplus note maturity	(121,361)	-
Other surplus changes, net	89,082	49,726
Statutory surplus, end of year	$14,100,954	$12,085,157

See accompanying notes to the combined statutory-basis financial statements.

Liberty Mutual Insurance Company Pool

Combined Statutory-Basis Statements of Cash Flow

Years ended December 31, 2007 and 2006

(dollars in thousands)

	2007	2006
Cash provided:		
From operations:		
Premiums collected	$12,028,358	$11,671,570
Investment income and other income, net	1,561,883	1,542,017
Claims and claim adjustment expenses	(7,814,300)	(7,635,493)
Underwriting and other expenses, net	(3,598,448)	(3,314,449)
Net cash provided by operations	2,177,493	2,263,645
From investments sold or matured:		
Fixed maturities	6,785,501	6,488,712
Common and preferred stocks	578,958	416,418
Investments in affiliates	4,893	20,432
Other investments	310,425	803,196
Cash provided by investments	7,679,777	7,728,758
Contributed capital and paid in surplus	1,200,791	882,663
Total cash provided	11,058,061	10,875,066
Cash applied:		
Cost of investments purchased:		
Fixed maturities	5,748,137	8,021,011
Common and preferred stocks	789,735	780,385
Investments in affiliates	3,070,671	1,127,152
Other investments	1,233,657	877,198
Cash applied to investments	10,842,200	10,805,746
Surplus notes and capital notes	121,243	(223)
Borrowed funds (received) repaid	(14,200)	101,468
Dividends to stockholder	4,373	2,164
Other, net	486,037	(315,334)
Total other cash applied (provided)	597,453	(211,925)
Total cash applied	11,439,653	10,593,821
Net (decrease) increase in cash and short-term investments	(381,592)	281,245
Cash and short-term investments, beginning of year	1,680,955	1,399,710
Cash and short-term investments, end of year	$1,299,363	$1,680,955

See accompanying notes to the combined statutory-basis financial statements.

LIBERTY MUTUAL INSURANCE COMPANY POOL

Notes to Combined Statutory Basis Financial Statements

(dollars in thousands)

(1) Summary of Significant Accounting Policies

(a) Organization

The accompanying combined statutory-basis financial statements of Liberty Mutual Insurance Company ("LMIC"), Liberty Mutual Fire Insurance Company ("LMFIC"), Employers Insurance Company of Wausau ("EICOW"), Liberty County Mutual Insurance Company ("LCMIC"), and Liberty Mutual Personal Insurance Company ("LMPICO"), collectively referred to as the "Companies", include, on a combined basis, the accounts of their U.S. property and casualty insurance subsidiaries. LMIC, LMFIC, EICOW and LMPICO are wholly owned subsidiaries of Liberty Mutual Group Inc. ("LMGI"). LMGI is 100% owned by LMHC Massachusetts Holdings, Inc. ("LMHC MHI") and LMHC MHI is owned 100% by Liberty Mutual Holding Company, Inc. ("LMHCI").

The following are the individual insurance companies that make up the Liberty Mutual Insurance Company Pool.

Insurer	*NAIC #*	*State of Domicile*
Liberty Mutual Insurance Company	23043	Massachusetts
Liberty Mutual Fire Insurance Company	23035	Wisconsin
Liberty Insurance Corporation	42404	Illinois
LM Insurance Corporation	33600	Iowa
The First Liberty Insurance Corporation	33588	Iowa
Employers Insurance Company of Wausau	21458	Wisconsin
Wausau Business Insurance Company	26069	Wisconsin
Wausau Underwriters Insurance Company	26042	Wisconsin
Wausau General Insurance Company	26425	Wisconsin
Bridgefield Casualty Insurance Company	10335	Florida
Bridgefield Employers Insurance Company	10701	Florida
Liberty County Mutual Insurance Company	19544	Texas
Liberty Insurance Company of America	10337	Illinois
Liberty Insurance Underwriters Inc.	19917	New York
Liberty Lloyds of Texas Insurance Company	11041	Texas
Liberty Mutual Personal Insurance Company	12484	Massachusetts
Liberty Personal Insurance Company	11746	Michigan
Liberty Surplus Insurance Corporation	10725	New Hampshire
LM General Insurance Company	36447	Delaware
LM Personal Insurance Company	36439	Delaware
LM Property and Casualty Insurance Company	32352	Indiana

The Companies provide most types of property and casualty insurance, fidelity and surety bonds, and insurance-related services for individuals, businesses, government units, and associations. The Companies' and their affiliates have operations in North America, South America, Asia, Europe and Australia.

(b) Basis of Presentation

The accompanying 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 from accounting principles generally accepted in the United States ("GAAP").

LIBERTY MUTUAL INSURANCE COMPANY POOL

Notes to Combined Statutory Basis Financial Statements

(dollars in thousands)

Principal variations from GAAP include:

Investments: Investments in bonds and mandatory redeemable preferred stocks are reported at amortized cost or fair value based on their National Association of Insurance Commissioners ("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 accumulated other comprehensive income, net of related deferred taxes, for those designated as available-for-sale. Fair value for statutory purposes is based on the price published by the Securities Valuation Office of the NAIC ("SVO"), if available, whereas fair value for GAAP is based on quoted market prices.

All single class and multi-class mortgage-backed/asset-backed securities (e.g., CMOs) are adjusted for the effects of changes in prepayment assumptions on the related accretion of discount or amortization of premium of such securities using either the retrospective or prospective methods. If it is determined that a decline in fair value is other than temporary, the cost basis of the security is written down to the undiscounted estimated future cash flows. For GAAP purposes, all securities, purchased or retained, that represent beneficial interests in securitized assets (e.g., CMO, CBO, CDO, CLO, MBS and ABS securities), other than high credit quality securities, are adjusted using the prospective method when there is a change in estimated future cash flows. If it is determined that a decline in fair value is other-than-temporary, the cost basis of the security is written down to the discounted fair value. If high credit quality securities are adjusted, the retrospective method is used.

Derivative instruments used in hedging transactions that meet the criteria of an effective hedge are valued and reported in a manner that is consistent with the hedged asset or liability. Embedded derivatives are not accounted for separately from the host contract. Under GAAP, all derivatives are reported on the balance sheet at fair value, the effective and ineffective portions of a single hedge are accounted for separately, and an embedded derivative within a contract that is not clearly and closely related to the economic characteristics and risks of the host contract is accounted for separately from the host contract and valued and reported at fair value. The change in fair value for cash flow hedges is credited or charged directly to a separate component of equity rather than to income as required for fair value hedges.

Investments in real estate are reported net of related obligations rather than on a gross basis as required for GAAP. Real estate owned and occupied by the Companies is included in investments rather than reported as an operating asset as under GAAP, and investment income and operating expenses for statutory reporting include rent for the Companies' occupancy of those properties.

Undistributed results of limited partnerships are reflected in unrealized gains on a statutory-basis while under GAAP, undistributed earnings are reflected in net investment income or unrealized gains, depending on how the limited partnerships account for unrealized gains.

Subsidiaries: The accounts and operations of the Companies' foreign insurance subsidiaries, life insurance subsidiary, and noninsurance subsidiaries are not consolidated with the accounts and operations of the Companies as would be required under GAAP.

LIBERTY MUTUAL INSURANCE COMPANY POOL

Notes to Combined Statutory Basis Financial Statements

(dollars in thousands)

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. Goodwill is an admitted asset subject to an aggregate limitation of 10% of the capital and surplus in the most recent financial statement filed with the domiciliary state commissioner, excluding EDP equipment, operating system software, net deferred tax assets and net positive goodwill. Excess goodwill is nonadmitted. Goodwill is amortized on a straight-line basis over a period not to exceed ten years and reflected as a component of unrealized capital gain or loss for unconsolidated subsidiaries and other surplus changes. Under GAAP, goodwill is not amortized but is subject to an assessment for impairment on an annual basis, or more frequently if circumstances indicate that a possible impairment has occurred.

Deferred Policy Acquisition Costs: The costs of acquiring and renewing business are expensed when incurred. Under GAAP, such costs that vary with and are primarily related to the acquisition of new and renewal insurance contracts, 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 incurred to the extent the amount does not exceed anticipated acquisition costs on business ceded, rather than being deferred and amortized with deferred policy acquisition costs, as required under GAAP. Any excess commission is deferred and recognized over the policy term consistent with GAAP.

Nonadmitted Assets: Certain assets designated as "nonadmitted," principally premiums receivable greater than ninety days past-due, furniture and equipment, deferred tax assets in excess of statutory limitations, goodwill in excess of statutory limitations, other intangible assets, and any other asset not specifically identified as an admitted asset within the NAIC Accounting Practices and Procedures Manual ("APP Manual"), are excluded from the accompanying balance sheets and charged directly to unassigned surplus. Under GAAP, such assets are included in the balance sheet, net of any valuation allowance required.

Policyholder Dividends: Policyholder dividends are recognized when declared rather than accrued over the term of the related policies, as would be required 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: Any reinsurance balance amounts deemed to be uncollectible have been written off through a charge to operations. A liability for reinsurance balances has been established for unsecured unearned premiums and unpaid losses ceded to reinsurers not authorized to transact business in certain states of domicile ("unauthorized reinsurance") and for certain overdue reinsurance balances. Changes to those amounts are credited or charged directly to unassigned surplus. Under GAAP, an allowance for amounts deemed uncollectible would be established through a charge to earnings.

Reserves for claims and claim 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.

LIBERTY MUTUAL INSURANCE COMPANY POOL

Notes to Combined Statutory Basis Financial Statements

(dollars in thousands)

Gains from retroactive reinsurance contracts are recognized in income but 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. Under GAAP, such gains are deferred and recognized in income using the effective interest method over the expected settlement date.

For reinsurance contracts that do not transfer insurance risk, the cash transactions between the ceding and assuming companies are reflected in the balance sheet as a deposit. Other income or loss is recognized when cash is transferred subsequent to the depletion of the deposit or through the elimination of any remaining deposit upon completion of the contract. The amount of the deposit asset (or liability) is adjusted by calculating the effective yield on the deposit to reflect actual payments to date and expected future payments with a corresponding credit or charge to interest income or expense.

Deferred Income Taxes: 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 capital and surplus excluding any net deferred tax assets, EDP equipment and operating system software, and any net positive goodwill ("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 income taxes. Under GAAP, state income 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. The difference between proceeds received and the face value of the surplus notes is amortized using the effective interest method over the period to maturity. Interest expense on surplus notes is reported as a component of net investment income when approved to be paid by the issuing Company's domiciliary Commissioner. Under GAAP, surplus notes are reported as debt and the associated interest is reported as interest expense in the period incurred.

Guaranty Funds and Other Assessments: The Companies are subject to guaranty funds and other assessments by the states in which the Companies write business. Guaranty funds and other assessments are accrued after an insolvency has occurred, which in most states is at the point the entity has been adjudicated insolvent, 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. Other assessments are accrued in the case of premium based assessments, at the time the premiums are written, or, in the case of loss based assessments, at the time the losses are incurred. Under GAAP, the assessment is typically accrued when premiums are written because the assessment generally is based on prospective premium writings.

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

The effects of the foregoing variances from GAAP on the accompanying combined statutory-basis financial statements have not been determined, but are presumed to be material.

The preparation of financial statements in conformity with accounting practices prescribed or permitted by the insurance departments of the states in which the Companies are domiciled requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. While management believes that the amounts included in the combined statutory-basis financial statements reflect their best estimates and assumptions, these amounts could ultimately be materially different from the amounts currently provided in the financial statements, as more information becomes known.

(c) New Accounting Pronouncements

In December 2007, the NAIC issued Statement of Statutory Accounting Principles ("SSAP") No. 97, Investment in Subsidiary, Controlled and Affiliated Entities, a Replacement of SSAP No. 88, effective on December 31, 2007. SSAP No. 97 requires companies to record investments in U.S. insurance subsidiary, controlled or affiliated entities ("SCA entities") based on the underlying audited statutory equity of each entity's financial statements, adjusted for any unamortized goodwill. Investments in foreign insurance subsidiaries are recorded based on the underlying audited U.S. GAAP equity of each entity adjusted to a U.S. statutory basis of accounting. Investments in noninsurance subsidiaries (with other than a minor ownership interest) are reported based on either the underlying U.S. GAAP equity adjusted to a U.S. statutory basis of accounting or based on the audited U.S. GAAP equity of the investee, depending on the nature of the activities in which the SCA entities are engaged.

Pursuant to SSAP No. 97, an insurer that owns a downstream noninsurance holding company is allowed to obtain a combined audit of the downstream noninsurance holding company and its subsidiaries or individual audits of the downstream noninsurance holding company and each of the downstream noninsurance holding company's subsidiaries. SSAP No. 97 offers a limited exception to the requirement to have audited financial statements of a downstream noninsurance holding company, provided that (1) the entities owned by the downstream noninsurance holding company have audited financial statements, (2) the downstream noninsurance holding company does not own any other assets which are material to the downstream noninsurance holding company other than the audited SCA entities, and (3) the downstream noninsurance holding company is not subject to liabilities, commitments, contingencies, guarantees or obligations which are material to the downstream noninsurance holding company. This is known as the "look through" approach. Under this approach, the reporting entity can admit the individual audited SCA entities, and unaudited, immaterial assets of the downstream noninsurance holding company are nonadmitted. The Companies elected to apply the "look through" approach for certain of their downstream noninsurance holding companies and nonadmitted an immaterial amount of unaudited downstream noninsurance holding company assets.

LIBERTY MUTUAL INSURANCE COMPANY POOL

Notes to Combined Statutory Basis Financial Statements

(dollars in thousands)

(d) ***Investment Securities***
Investment securities are carried according to valuations prescribed by the NAIC. Fixed maturity securities are generally carried at cost and adjusted, where appropriate, for amortization of premium or discount, using the interest method. Common stocks are reported at fair value in accordance with the SVO Manual. Nonredeemable preferred stocks are carried at cost or fair value in accordance with the SVO Manual. The related net unrealized capital gains (losses) on common and nonredeemable preferred stocks are reported in unassigned surplus net of any adjustment for federal taxes. There are no restrictions on common or preferred stock.

Prepayment assumptions for single class and multi-class mortgage-backed/asset-backed 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 and multi-class mortgage-backed/asset-backed securities.

Non-investment grade investment securities are stated at the lower of amortized value or fair value.

The Companies' noninsurance subsidiaries, which are engaged in certain activities and 20% or more of their GAAP revenues, excluding realized and unrealized capital gains and losses, are generated from the Companies and their affiliates, and all foreign insurance subsidiaries, except downstream noninsurance holding companies where the Companies have elected to apply the limited exception "look through" approach, are reported based on underlying audited GAAP equity adjusted to a statutory-basis of accounting. All other noninsurance subsidiaries are accounted for based on underlying audited GAAP equity. The net change in the subsidiaries' equity is included in the change in net unrealized capital gains or losses. Dividends or distributions received from affiliates are recognized in investment income when declared to the extent that they are not in excess of the undistributed accumulated earnings attributable to the Companies' investment in affiliated common stock. Dividends or distributions declared in excess of the undistributed accumulated earnings attributable to the affiliated entity reduces the carrying amount of the Companies' investment.

Investments in limited partnerships are carried on the equity method.

Short-term investments include investments with remaining maturities of one year or less at the time of acquisition and are carried at cost and adjusted, where appropriate, for amortization of premium or discount, using the interest method.

Company-occupied properties are carried at depreciated cost unless one of the following conditions is present: (1) the financial condition of the reporting entity is in question, (2) the property occupied by the company is held for sale, (3) there has been a significant adverse change in the physical condition of the property or (4) management of the company has voluntarily determined a need for recoverability testing. If any of these conditions exist, the property would be valued net of encumbrances. Depreciation is calculated on the straight-line basis over the estimated useful lives of the properties.

Realized gains and losses on sales of investments are recognized in net income, net of federal and foreign capital gains taxes, using the specific identification method.

Changes in unrealized gains and losses on stocks, certain fixed maturities, and other investments are recorded in surplus along with any adjustment for deferred federal income taxes. 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's financial condition. Unrealized losses that are other-than-temporary are recognized in earnings.

(e) ***Fair Values of Financial Instruments***
The Companies have used the following methods and assumptions in estimating the fair value 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.

Funds held under reinsurance contracts (asset or liability): The carrying amounts reported in the balance sheets for these instruments approximate their fair values.

(f) ***Securities Lending***
The Companies engage in securities lending activities whereby certain investment securities are loaned to other institutions for short periods of time. The Companies generally receive cash or short-term investments as collateral from the borrower, equal to or in excess of 102% of the market value of the loaned securities, and reinvest the cash collateral in short-term investments. The loaned securities remain a recorded asset of the Companies, however, the Companies record a liability for the amount of cash collateral held, representing their obligation to return the collateral related to the loaned securities.

(g) ***Premiums***
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 premium reserves represent the unexpired portion of premiums written and are determined on a daily pro-rata basis. Premium adjustments resulting from retrospective rating of experience-rated policies and unbilled audit premiums are estimated and accrued through earned premium except for Bridgefield Casualty Insurance Company ("BCIC") and Bridgefield Employers Insurance Company ("BEIC"), which record it through written premium. Also accrued are the related taxes, assessments and expenses associated with acquiring, billing, and collecting the premiums. Accrued retrospectively rated premiums included within premiums, including all those relating to bulk incurred but not reported claims reserves ("IBNR"), have been determined based upon loss experience on business subject to such experience adjustment. Ten percent of the amount not offset by retrospective return premiums or collateral has been designated nonadmitted and charged to surplus.

(h) ***Premium Deficiency Reserves***
When the anticipated claims and claim adjustment expenses, commissions and other acquisition costs and maintenance costs that have not previously been expensed exceed the recorded unearned

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(dollars in thousands)

premium reserve, future installment premiums on existing policies, and anticipated investment income on existing policies, a premium deficiency reserve is established.

(i) ***Reinsurance***
Prospective reinsurance premiums and claims and claim adjusted epenses are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

(j) ***Claims and Claim Adjustment Expense Reserves***
The Companies establish reserves for unpaid claims and claim adjustment expenses covering events that occurred in 2007 and prior years. These reserves represent management's best estimate of ultimate net cost of all reported and unreported claims incurred through December 31 and 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 might not occur for several years. Reserve estimates are continually reviewed and updated as necessary as experience develops or new information becomes known, and any resulting adjustments are reflected in current operating results.

The Companies write insurance policies that cover catastrophic events. The Companies' policies cover unpredictable natural and other disasters, such as hurricanes, windstorms, earthquakes, floods, fires, terrorist attacks and explosions. Although the Companies carry reinsurance to mitigate their exposure to certain catastrophic events, claims from catastrophic events could reduce the Companies' earnings and cause substantial volatility in its financial results for any year and adversely affect their financial condition or results of operations.

The Companies do not discount reserves other than tabular discounting on the long-term indemnity portion of workers compensation claims and specific asbestos structured settlements. Reserves are reduced for estimated amounts of salvage and subrogation, deductibles recoverable from policyholders and unpaid recoverables under reinsurance contracts.

(k) ***Dividends***
For domestic property-casualty insurance, certain insurance contracts, primarily workers' compensation policies, are issued with dividend plans, to be paid subject to approval by the insurer's board of directors. Such policies approximate 4.5% and 5.6% of domestic property-casualty insurance premiums written at December 31, 2007 and 2006, respectively.

(l) ***Foreign Exchange***
The Companies convert foreign currencies to U.S. dollars 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.

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(m) ***Inter-company Pooling Arrangements***
The accompanying combined statutory-basis financial statements of the Companies represent the Liberty Mutual Insurance Company Pool ("LM Pool").

In addition to pooling underwriting results and other income and expenses, the LM Pool members share in related balance sheet activity based on the terms of the LM Pooling and fronting reinsurance agreements and the pool members respective pooling percentages below.

		NAIC Company Number	2007 Pooling Percentage
Lead Company	Liberty Mutual Insurance Company ("LMIC")	23043	75.90%
Affiliated Pool Companies	Employers Insurance Company of Wausau ("EICOW")	21458	10.00%
	Liberty Mutual Fire Insurance Company ("LMFIC")	23035	10.00%
	Liberty Insurance Corporation ("LIC")	42404	3.00%
	Wausau Business Insurance Company ("WBIC")	26069	0.40%
	Wausau General Insurance Company ("WGIC")	26425	0.00%
	Wausau Underwriters Insurance Company ("WUIC")	26042	0.40%
	LM Insurance Corporation ("LMC")	33600	0.20%
	The First Liberty Insurance Corporation ("FST")	33588	0.10%
	Liberty Surplus Insurance Corporation ("LSIC")	10725	0.00%
	Liberty Personal Insurance Company ("LPIC")	11746	0.00%
	Liberty Insurance Company of America ("LICA")	10337	0.00%
100% Quota Share Affiliated Companies	Liberty Lloyds of Texas Insurance Company ("LLOT")	11041	0.00%
	Liberty County Mutual Insurance Company ("LCMIC")	19544	0.00%
	Liberty Insurance Underwriters, Inc. ("LIU")	19917	0.00%
	Bridgefield Employers Insurance Company ("BEIC")	10701	0.00%
	Bridgefield Casualty Insurance Company ("BCIC")	10335	0.00%
	LM Property and Casualty Insurance Company ("LMPAC")	32352	0.00%
	LM General Insurance Company ("LMGIC")	36447	0.00%
	LM Personal Insurance Company ("LMPIC")	36439	0.00%
	Liberty Mutual Personal Insurance Company ("LMPICO")	12484	0.00%

All LM Pool company cessions to non-affiliated reinsurers are reported and ceded on an individual company basis prior to the cession of pooled business from the affiliated pool members, except for WBIC, WGIC and WUIC, to the lead company, LMIC. WBIC, WGIC and WUIC cede 100% of their direct underwriting activity to EICOW following all cessions to non-affiliated reinsurers. All cessions by LMIC to non-affiliated reinsurers are reported and ceded through the lead company, LMIC.

LMGIC and LMPIC, after external reinsurance, cede their net underwriting activity to LMPAC. LMPAC cedes the majority of its underwriting results to LMIC. LMPAC does retain certain defined lines of business within its own legal entity.

(n) ***Related Party Transactions***
LMIC has service agreements with its subsidiaries and several affiliated companies. Under the agreements, LMIC provides its affiliated companies with office space, supplies, equipment,

(dollars in thousands)

telephone and wire services, the use of computers and similar machines and services of personnel employed by LMIC. Services include but are not limited to the following: claims handling, credit and collections, sales policy production, underwriting, investment management, and a variety of computer activities. LMIC is reimbursed for the costs of all services which it provides under these agreements.

Pursuant to an Employee Benefit Plans Cost-Sharing Agreement, LMIC has agreed to reimburse LMGI for certain costs related to one or more employee benefit or welfare plans covering current or past employees of LMIC or its affiliates which have been transferred to LMGI. The amount of the reimbursement is the required contributions to the pension plans and with respect to other plans, the benefits incurred on the Companies' behalf.

(2) Business Combinations

On August 24, 2007, Liberty Mutual and certain affiliates acquired all of the issued and outstanding voting securities of Ohio Casualty Corporation, a holding company, which is the upstream parent of six property casualty insurance companies. Companies in the Liberty Mutual Pool directly acquired a 92% ownership interest in Ohio Casualty Corporation. The transaction was accounted for as a statutory purchase and the cost was $2,561,703, resulting in goodwill in the amount of $1,357,788. Goodwill amortization relating to the purchase of Ohio Casualty Corporation was $48,201 for the year ended December 31, 2007; goodwill is being amortized over ten years. Goodwill of $281,785 was non-admitted at December 31, 2007. In addition, the Companies own the remaining 8% through its ownership in Liberty Insurance Holdings, Inc..

(3) Investments

(a) *Fixed Maturities*

The amortized cost and fair values of fixed maturity securities at December 31, 2007 and 2006, are as follows:

December 31, 2007	Statement Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$ 1,371,359	$ 24,115	$ (331)	$ 1,395,143
U.S. mortgage and asset-backed securities of government and corporate agencies	7,614,240	55,674	(71,691)	7,598,223
State and political subdivisions	6,232,547	74,426	(30,734)	6,276,239
Corporate and other	5,938,603	54,544	(112,963)	5,880,184
Foreign government	673,507	19,011	(985)	691,533
Total fixed maturities	$ 21,830,256	$ 227,770	$ (216,704)	$21,841,322

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December 31, 2006	Statement Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$ 2,835,565	$ 3,988	$ (51,655)	$ 2,787,898
U.S. mortgage and asset-backed securities of government and corporate agencies	7,911,254	33,148	(145,745)	7,798,657
State and political subdivisions	4,926,996	78,568	(16,991)	4,988,573
Corporate and other	6,414,728	97,868	(131,588)	6,381,008
Foreign government	718,789	4,866	(2,036)	721,619
Total fixed maturities	$22,807,332	$ 218,438	$ (348,015)	$22,677,755

The amortized cost and fair values of fixed maturity securities at December 31, 2007, by contractual maturity, are as follows:

	Statement Value	Fair Value
Due to mature:		
One year or less	$ 767,484	$ 770,309
Over one year through five years	3,459,733	3,477,395
Over five years through ten years	4,375,898	4,355,747
Over ten years	5,612,901	5,639,648
U.S. mortgage and asset-backed securities of government and corporate agencies	7,614,240	7,598,223
Total fixed maturities	$ 21,830,256	$ 21,841,322

Expected maturities may differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(b) *Common and Preferred Stocks and Other Invested Assets*
The cost of common and preferred stocks and other invested assets at December 31, 2007 and 2006 are as follows:

	2007	2006
Common and preferred stocks	$ 1,598,428	$ 1,271,108
Other invested assets	1,451,673	1,063,414
	$ 3,050,101	$ 2,334,522

(dollars in thousands)

(c) Investments in Affiliates

The Companies' equity in the net assets of subsidiaries is summarized as follows at December 31, 2007 and 2006:

	2007	2006
Total assets	$ 41,176,188	$ 32,522,747
Total liabilities	(32,391,091)	(27,239,724)
Companies' equity in net assets	8,785,097	5,283,023
Non-admitted goodwill	(281,785)	-
Net admitted investment in affiliates	$ 8,503,312	$ 5,283,023

Equity in net assets of unconsolidated subsidiaries is distributed as follows at December 31, 2007 and 2006:

	2007	2006
International subsidiaries	$ 2,121,344	$ 1,693,279
Liberty Insurance Holdings, Inc.	1,789,986	1,617,501
Wausau Service Corp.	19,164	12,932
Golden Eagle Insurance Corporation	312,420	279,489
Liberty Northwest Insurance Corporation	90,084	89,942
Liberty Life Assurance Company of Boston	482,428	449,322
Liberty Energy Holdings, LLC	497,974	445,707
St. James/Arlington Real Estate LP	508,314	494,541
Ohio Casualty Corporation	2,544,886	-
Other subsidiaries	418,497	200,310
Equity in net assets of unconsolidated subsidiaries	$ 8,785,097	$ 5,283,023

The remaining unamortized goodwill and other intangible asset balances included as a component of the Companies' investments in unconsolidated subsidiaries at December 31, 2007 and 2006 were $1,424,750 and $155,294, respectively, with corresponding goodwill amortization of $98,065 and $47,791 during 2007 and 2006, respectively.

During 2007, LMIC received dividends from affiliated investments of $366,001. The dividends were distributed from Liberty Energy Holdings, LLC, Liberty Mutual Equity, LLC and LMIA Coinvestment, LLC, in the amounts of $307,699, $34,419 and $23,883, respectively.

During 2006, LMIC received dividends from affiliated investments of $746,330. The dividends were primarily distributed from Liberty Energy, LLC, Liberty Northwest Insurance Corporation, Indiana Insurance Company, Peerless Insurance Company, Golden Eagle Insurance Corporation, and Excelsior Insurance Company in the amounts of $324,359, $180,000, $108,968, $67,370, $28,725, and $27,574, respectively.

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(dollars in thousands)

(d) ***Realized Investment Gains (Losses)***
Realized investment gains (losses) were as follows in 2007 and 2006:

	2007	2006
Fixed maturities:		
Gross gains	$ 56,266	$ 51,446
Gross losses	(58,453)	(47,146)
Common and preferred stocks:		
Gross gains	150,941	98,300
Gross losses	(27,135)	(24,006)
Investments in Affiliates:		
Gross gains	3,800	-
Other investments:		
Gross gains	151,638	121,950
Gross losses	(27,444)	(40,598)
	$ 249,613	$ 159,946

Proceeds from sales of fixed maturity investments during 2007 and 2006, were $3,806,049 and $3,289,951, respectively.

Realized capital losses on fixed maturity investments included other-than-temporary impairment write-downs of $25,477 and $24,671 in 2007 and 2006, respectively.

The following table shows a schedule of the Companies' unrealized losses and fair value by security type by duration of potential impairment at December 31, 2007.

	Less Than 12 Months		**Greater Than 12 Months**	
	Unrealized Losses	**Fair Value of Investments with Unrealized Losses**	**Unrealized Losses**	**Fair Value of Investments with Unrealized Losses**
U.S. Treasury securities	$ (66)	$ 11,772	$ (265)	$ 74,124
U.S. mortgage and asset-backed securities of government and corporate agencies	(16,192)	967,285	(55,499)	3,215,267
State and political subdivisions	(18,508)	1,310,295	(12,226)	746,429
Corporate and other	(26,519)	853,174	(86,444)	2,156,788
Foreign government	(484)	51,242	(501)	59,983
Equities	(134,883)	660,542	(7,459)	30,972
Total	$ (196,652)	$ 3,854,310	$ (162,394)	$ 6,283,563

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(dollars in thousands)

The following table shows a schedule of the Companies' unrealized losses and fair value by security type by duration of potential impairment at December 31, 2006.

	Less Than 12 Months		Greater Than 12 Months	
	Unrealized Losses	Fair Value of Investments with Unrealized Losses	Unrealized Losses	Fair Value of Investments with Unrealized Losses
U.S. Treasury securities	$ (4,596)	$ 1,048,574	$ (47,059)	$ 1,573,726
U.S. mortgage and asset-backed securities of government and corporate agencies	(10,514)	1,452,355	(135,231)	4,721,905
State and political subdivisions	(11,413)	1,248,594	(5,578)	143,206
Corporate and other	(7,435)	1,042,324	(124,153)	3,172,727
Foreign government	(658)	125,374	(1,378)	137,074
Equities	(13,613)	210,505	(3,208)	33,694
Total	$ (48,229)	$ 5,127,726	$ (316,607)	$ 9,782,332

The majority of unrealized losses reported in the corporate and other category involve holdings where the market value is less than 10% below book value. Also included in these unrealized losses are amounts relating to securities issued and guaranteed by agencies of the U.S. Government.

The equity holdings reflecting unrealized losses were not deemed to be impaired on an other-than-temporary basis under the Companies impairment policy.

The Companies employ a systematic methodology to evaluate declines in fair value below the book value for equity securities and other investments. The unrealized losses on the securities above are subject to review during each quarterly impairment analysis cycle. The methodology utilizes a quantitative and qualitative process ensuring that available evidence concerning the declines in fair value below carrying value is evaluated in a disciplined manner. Based on that evaluation and the Companies' ability and intent to hold these investments for a reasonable period of time sufficient for a recovery of fair value, the Companies view the decline in market value of these investments as being temporary in accordance with the Companies impairment policy.

(e) Net Investment Income

Net investment income for the years ended December 31, 2007 and 2006, consisted of:

	2007	2006
Fixed maturities	$ 1,155,199	$ 1,142,771
Common and preferred stocks	71,184	48,050
Short-term investments	76,678	41,205
Other	47,221	31,130
Affiliated dividends	366,001	746,330
Gross investment income	1,716,283	2,009,486
Investment and other expense	(180,170)	(173,425)
Net investment income	$ 1,536,113	$ 1,836,061

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(f) *Statutory Deposits*
At December 31, 2007 and 2006, fixed maturity securities carried at $2,596,430 and $2,350,393, respectively, were on deposit with state insurance departments to satisfy regulatory requirements.

(g) *Securities Loaned*
At December 31, 2007, the market value of fixed maturity securities loaned was approximately $345,123. Cash and short-term investments received as collateral in connection therewith at December 31, 2007 was approximately $211,045, while non-cash collateral received in connection therewith was approximately $150,597.

(4) Unpaid Claims and Claim Adjustment Expenses
The Companies establish reserves for payment of claims and claim adjustment expenses that arise from the policies issued. As required by applicable accounting rules, no reserves are established until a loss, including a loss from a catastrophe, occurs. The Companies' reserves are segmented into three major categories: reserves for reported claims (estimates made by claims adjusters); incurred but not reported claims reserves ("IBNR") representing reserves for unreported claims and supplemental reserves for reported claims; and reserves for the costs to settle claims. The Companies establish reserves net of salvage and subrogation by line of business or coverage and by the year in which losses occur.

Establishing loss reserves, including loss reserves for catastrophic events that have occurred, is an estimation process. Many factors can ultimately affect the final settlement of a claim and, therefore, the necessary reserve. Changes in the law, results of litigation, medical costs, the costs of repair materials and labor rates can all affect ultimate claim costs. In addition, time can be a critical part of reserving determinations since the longer the span between the incidence of a loss and the payment or settlement of the claim, the more variable the ultimate settlement can be. Accordingly, "short-tail" claims, such as property damage claims, tend to be easier to estimate than "long-tail" claims, such as workers compensation or general liability claims.

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' estimates of ultimate liabilities may be required. The effects of these changes are reflected in current operating results.

Catastrophes are an inherent risk of the property-casualty insurance business and have contributed to material period-to-period fluctuations in the Companies' results of operations and financial position. The level of catastrophe losses experienced in any period cannot be predicted and can be material to the results of operations and financial position of the Companies. Catastrophe losses incurred during the years ended December 31, 2007 and 2006 were $283,409 and $345,508, respectively.

See Note 5 for a discussion of incurred claims and claim adjustment expenses attributable to prior years for asbestos and environmental reserves.

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Activity in property and casualty unpaid claims and claim adjustment expenses of the Companies, net of reinsurance recoverables on unpaid claims and claim adjustment expenses, is summarized as follows:

	2007	2006
Balance as of January 1	$ 18,546,081	$ 17,321,588
Incurred attributable to:		
Current year	8,726,584	8,033,550
Prior years:		
Discount accretion	78,103	105,000
All other	374,450	548,197
Total incurred	9,179,137	8,686,747
Paid attributable to:		
Current year	3,227,079	3,134,360
Prior years	4,521,564	4,339,073
Total paid	7,748,643	7,473,433
Net adjustment due to foreign exchange	46,875	11,179
Balance as of December 31	$ 20,023,450	$ 18,546,081

In 2007, incurred attributable to prior years, excluding asbestos and environmental, is primarily related to workers compensation, other liability and non-proportional assumed liability lines of business, partially offset by personal auto and commercial multi peril. In 2006, incurred attributable to prior years, excluding asbestos and environmental, is primarily related to the workers compensation and assumed non-proportional liability lines of business, partially offset by personal auto and commercial auto lines of business.

The Companies have not discounted unpaid property and casualty insurance claims and claim adjustment expenses other than tabular discounting on the long-term indemnity portion of workers compensation claims and specific asbestos structured settlements.

The tabular discounting on workers' compensation claims is based upon Unit Statistical Plan tables as approved by the respective states which were 4.0% for the years ended December 31, 2007 and 2006. Unpaid claims and claim adjustment expenses at December 31, 2007 and 2006 include liabilities of $3,559,961 and $3,506,383 at discounted values of $2,200,678 and $2,169,090, respectively.

For certain commercial lines of insurance, the Companies offer experience-rated insurance contracts whereby the ultimate premium is dependent upon the claims incurred. At December 31, 2007 and 2006, the Companies held $3,739,258 and $3,470,688, respectively, of unpaid claims and claim adjustment expenses related to experience-rated contracts. Premiums receivable included accrued retrospective premiums and unbilled audit premiums of $606,451 and $805,504 at December 31, 2007 and 2006, respectively; $69,490 and $77,820, respectively, have been designated as non-admitted assets and charged to surplus.

Unpaid claims and claim adjustment expenses are recorded net of anticipated salvage and subrogation of $434,567 and $454,660 as of December 31, 2007 and 2006, respectively.

At December 31, 2007 and 2006, the Companies recorded reserve credits for large dollar deductibles on unpaid claim losses of $4,812,288 and $4,413,918, respectively. The Companies' billed and recoverable was $242,352 and $261,034 as of December 31, 2007 and 2006, respectively.

(5) Asbestos and Environmental Reserves

The Companies have exposure to asbestos and environmental claims that emanate principally from general liability policies written prior to the mid-1980's. In establishing asbestos and environmental reserves, the Companies estimate case basis reserves for anticipated losses and bulk reserves for claim adjustment expenses and IBNR losses. The Companies maintained casualty excess of loss reinsurance during the relevant periods. The reserves are reported net of cessions to reinsurers and include any reserves reported by ceding reinsurers on assumed reinsurance contracts.

Upon their de-affiliation from the Nationwide Group and affiliation with the Company, EICOW, WBIC, WGIC, and WUIC entered into ceded reinsurance contracts whereby Nationwide Indemnity Company assumed full responsibility for obligations on certain policies with effective dates prior to January 1, 1986, including all asbestos and environmental exposures.

The process of establishing reserves for asbestos and environmental claims is subject to greater uncertainty than the establishment of reserves for liabilities relating to other types of insurance claims. A number of factors contribute to this greater uncertainty surrounding the establishment of asbestos and environmental reserves, including, without limitation: (i) the lack of available and reliable historical claims data as an indicator of future loss development, (ii) the long waiting periods between exposure and manifestation of any bodily injury or property damage, (iii) the difficulty in identifying the source of asbestos or environmental contamination, (iv) the difficulty in properly allocating liability for asbestos or environmental damage, (v) the uncertainty as to the number and identity of insurers with potential exposure, (vi) the cost to resolve claims, and (vii) the collectibility of reinsurance.

The uncertainties associated with establishing reserves for asbestos and environmental claims and claim adjustment expenses are compounded by the differing, and at times inconsistent, court rulings on environmental and asbestos coverage issues involving: (i) the differing interpretations of various insurance policy provisions and whether asbestos and environmental losses are or were ever intended to be covered, (ii) when the loss occurred and what policies provide coverage, (iii) whether there is an insured obligation to defend, (iv) whether a compensable loss or injury has occurred, (v) how policy limits are determined, (vi) how policy exclusions are applied and interpreted, (vii) the impact of entities seeking bankruptcy protection as a result of asbestos-related liabilities, (viii) whether clean-up costs are covered as insured property damage, and (ix) applicable coverage defenses or determinations, if any, including the determination as to whether or not an asbestos claim is a products/completed operation claim subject to an aggregate limit and the available coverage, if any, for that claim. These uncertainties cannot be reasonably estimated, but could have a material impact on the Companies' future operating results and financial condition.

In the last few years, the Companies, as well as the industry generally, have seen decreases in the number of asbestos claims being filed. This turn to a more favorable trend is due to a number of

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factors. Screening activity used by some lawyers to find new plaintiffs has been as a result of questionable practices discovered in the Federal Silica Multi District Litigation. Court decisions in several key states (e.g., Mississippi) have been favorable to defendants. Most importantly, several states have enacted legislation in the past few years that contain medical criteria provisions aimed at reducing the number of lawsuits filed by unimpaired plaintiffs and providing prompt and fair compensation to those who meet the criteria.

In 2007, the Companies completed an internal study on environmental claims and its comprehensive biennial ground-up asbestos reserve study. The ground-up asbestos reserve study was completed by a multi-disciplined team of internal claims, legal, reinsurance and actuarial personnel, and it included all major segments of the Companies' direct, assumed, and ceded asbestos claims. As part of the internal reviews, potential exposures of large policyholders are individually evaluated using the Companies' proprietary stochastic model, which is consistent with published actuarial papers on asbestos reserving. Among the factors reviewed in depth by the team of specialists are the type of business, level of exposure, coverage limits, geographic distribution of products, types of injury, state jurisdictions, legal defenses, and reinsurance potential. Small policyholders are evaluated using aggregate methods that utilize information developed from the large policyholders. Between comprehensive studies, the Companies monitor asbestos activity to determine whether or not any adjustment to reserves is warranted. The result of the studies, which reflects management's best estimate of the reserve requirement, are in the table below.

As a result of the significant uncertainty inherent in determining a company's asbestos and environmental liabilities and establishing related reserves, the amount of reserves required to adequately fund the Companies' asbestos and environmental claims cannot be accurately estimated using conventional reserving methodologies based on historical data and trends. As a result, the use of conventional reserving methodologies frequently has to be supplemented by subjective considerations including managerial judgment. In that regard, the estimation of asbestos claims and associated liabilities and the analysis of environmental claims considered prevailing applicable law and certain inconsistencies of court decisions as to coverage, plaintiffs' expanded theories of liability, and the risks inherent in major litigation and other uncertainties, the Companies believe that in future periods it is possible that the outcome of the continued uncertainties regarding asbestos and environmental related claims could result in an aggregate liability that differs from current reserves by an amount that could be material to the Companies' future operating results and financial condition.

Unpaid claims and claim adjustment expenses for asbestos and environmental related claims, net of reinsurance, were $1,169,871 and $1,357,702 at December 31, 2007 and 2006, respectively.

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(dollars in thousands)

The following table summarizes the activity for the Companies' asbestos and environmental claims and claim adjustment expenses for the years ended December 31, 2007 and 2006.

	2007	2006		2007	2006
Asbestos Gross:			**Environmental Gross:**		
Beginning reserves	$2,508,075	$2,688,474	Beginning reserves	$ 566,859	$ 752,260
Incurred losses and LAE	422,849	147,530	Incurred losses and LAE	7,357	48,732
Calendar year payments	482,419	327,905	Calendar year payments	69,834	234,219
Foreign exchange	905	(24)	Foreign exchange	160	86
Ending reserves	$2,449,410	$2,508,075	Ending reserves	$ 504,542	$ 566,859
Asbestos Net:			**Environmental Net:**		
Beginning reserves	$ 852,923	$1,048,825	Beginning reserves	$ 404,796	$ 437,428
Incurred losses and LAE	185,109	121,941	Incurred losses and LAE	9,819	20,201
Calendar year payments	240,692	217,862	Calendar year payments	42,107	52,862
Foreign exchange	6	2	Foreign exchange	17	29
Ending reserves	$ 797,346	$ 952,906	Ending reserves	$ 372,525	$ 404,796

(6) Reinsurance

In the ordinary course of business, the Companies assume reinsurance and also cede reinsurance 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.

The effects of reinsurance on premiums written and earned for the years ended December 31, 2007 and 2006 were as follows:

	2007		2006	
	Written Premium	Earned Premium	Written Premium	Earned Premium
Direct	$ 15,023,742	$ 14,766,214	$ 14,575,195	$ 14,173,545
Assumed	595,903	607,933	559,700	517,028
Ceded	(3,470,069)	(3,573,437)	(3,270,751)	(3,319,146)
Net premiums	$ 12,149,576	$ 11,800,710	$ 11,864,144	$ 11,371,427

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

The Companies have an aggregate reinsurance recoverable from Nationwide Indemnity Company in the amount of approximately $2,100,426 and $2,101,987 as of December 31, 2007 and 2006, respectively. The reinsurance recoverable is guaranteed by Nationwide Mutual Insurance Company. Additionally, the Companies have significant reinsurance recoverable concentrations with Swiss Reinsurance Group, Munich Re Group, Everest Re Group, and Berkshire Hathaway Insurance

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Group, totaling approximately \$1,143,048, \$418,358, \$366,236 and \$323,397, respectively, as of December 31, 2007, net of offsetting collateral under the contracts.

Recoverables from state mandated involuntary market pools and associations primarily represent servicing carrier business. As a servicing carrier, the Companies retain no direct underwriting risk but instead cede 100% of the involuntary premium and losses back to the pool. Payment of losses is shared among the pool participants in proportion to their pool participation. Credit risk with respect to any given pool or association is a composite of the cumulative credit of all participants.

Effective April 1, 2003 and April 1, 2004, LMIC entered into four quota share reinsurance agreements with Liberty Re Bermuda, a direct, unconsolidated subsidiary of LMIC, whereby LMIC ceded Homeowners, Auto Physical Damage, Other Liability and Products Liability. All of these agreements are on a funds held basis with the exception of the Auto Physical Damage. During 2006, the Homeowners and Products Liability agreements were commuted. Prior to 2006, the Auto Physical Damage agreements were commuted.

In 2007, the Companies did not commute any material amounts of ceded reinsurance. In 2006, the Companies reported \$36,399 in its operations as a result of commutation of reinsurance with Liberty Re Bermuda.

Effective November 1, 2005, 2006, and 2007, LMIC entered into two quota share reinsurance agreements whereby LMIC ceded Auto Physical Damage to Liberty Re Bermuda and St James Insurance Company Ltd.

Effective January 1, 2007, LMIC entered into a quota share reinsurance agreement whereby LMIC ceded Auto Physical Damage to Lloyds Syndicate 4472.

For the agreements discussed in the preceding paragraphs, LMIC ceded premiums earned of \$926,576 and \$386,962 for the years ended December 31, 2007 and 2006, respectively. Ceded claims and claim adjustment expenses incurred as of December 31, 2007 and 2006 were \$541,968 and \$208,126, respectively. The cessions resulted in statutory net losses of \$91,367 and \$86,601 for the years ended December 31, 2007 and 2006, respectively.

In 2002 and prior, the Companies entered into retroactive reinsurance agreements with unaffiliated entities where a significant portion of the consideration is retained on a "funds held" basis and interest is credited on the balance with a weighted average rate of approximately 7.7% annually. Excluding paid liquidations, the Companies adjusted the retroactive reinsurance recoverable \$4,987 and \$85,483, and recorded other income of \$3,983 and \$56,485 in 2007 and 2006, respectively. Interest credited to the funds held balances for the years ended December 31, 2007 and 2006 was \$116,007 and \$124,569, respectively.

In 2006, LMIC entered into multi-year property catastrophe reinsurance agreements with Mystic Re Ltd. ("Mystic Re"), a Cayman Islands domiciled reinsurer, to provide \$525,000 of additional reinsurance coverage for LMIC and its affiliates in the event of a Northeast hurricane. The reinsurance agreements are fully collateralized by proceeds received by Mystic Re from the issuance of catastrophe bonds and provide coverage for hurricane-related losses from Washington, D.C. to Maine based on industry insured losses as reported by Property Claim Services. In 2007, LMIC

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supplemented this reinsurance in a similar transaction with Mystic Re II Ltd. ("Mystic Re II"), a Cayman Islands domiciled reinsurer, to provide $150,000 of additional reinsurance coverage for LMIC and its affiliates in the event of a Northeast and/or Florida hurricane event. The Company has not recorded any recoveries under these programs. Neither Mystic Re nor Mystic Re II has any other reinsurance in force.

(7) Debt

The Companies maintain a $1,000,000 revolving line of credit with LMGI. Outstanding borrowings as of December 31, 2007 and 2006, totaled $950 and $961, respectively. Interest is paid quarterly in arrears based on average borrowings at a variable interest rate. Interest expense incurred related to this agreement was $72 and $1,708 in 2007 and 2006, respectively. Interest paid related to this agreement was $72 and $2,333 in 2007 and 2006, respectively.

On June 15, 2007, LMIC, LMFIC, and EICOW entered into a short term borrowing arrangement with LMGI. The principal amount borrowed was $920,000 at a rate of 5.85%. The loan was paid off on December 14, 2007. Interest paid on this loan in 2007 was $12,010.

(8) Capital and Surplus

As of December 31, 2007 and 2006, LMIC and LMFIC each had 100,000 shares ($100 par value) authorized, issued and outstanding, EICOW had 5,000,000 shares ($1 par value) authorized, issued, and outstanding and LMPICO had 7,000 shares ($100 par value) authorized, issued and outstanding. As of December 31, 2007, the Companies have restricted surplus of $1,250,165 resulting from retroactive reinsurance contracts.

The Companies received capital contributions from LMGI in the amount of $1,200,791 and $882,663 in 2007 and 2006, respectively.

Property and casualty insurance companies are subject to certain Risk-Based Capital ("RBC") requirements as specified by the NAIC. Under those requirements, the amount of capital and surplus maintained by a property and casualty insurance company is to be determined based on the various risk factors related to it. At December 31, 2007, the Companies exceeded the RBC requirements.

(9) Surplus Notes

Surplus notes represent subordinated debt instruments classified as a component of surplus for statutory accounting purposes. At December 31, 2007 and 2006, the Companies had the following surplus notes outstanding:

Interest Rate, Amount of Note, Date of Maturity	2007	2006
8.200%, $121,361 Notes due May 4, 2007	$ -	$ 121,352
8.500%, $150,000 Notes due May 15, 2025	149,822	149,811
7.875%, $250,000 Notes due October 15, 2026	249,737	249,724
7.697%, $500,000 Notes due October 15, 2097	492,407	492,322
	$ 891,966	$ 1,013,209

Payments for interest on and principal of the notes are expressly subordinate to all policyholder claims and other obligations of LMIC. Accordingly, interest and principal payments are contingent

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upon prior approval of the Commissioner of Insurance of the State of Massachusetts. Interest paid was $ 75,898 and $80,874 for the years ended December 31, 2007 and 2006, respectively.

On May 4, 2007, LMIC retired its $121,361 note due May 4, 2007. Interest paid on the retired note was $4,976 and $9,952 for the years ended December 31, 2007 and 2006, respectively.

(10) Federal and Foreign Income Taxes

LCMIC files a separate Federal income tax return. All other Companies file as members of a consolidated Federal income tax return with LMHCI. Pursuant to a written inter-company Federal income tax allocation agreement, the consolidated tax liability is allocated to each company based on its separate tax liability. Tax benefits are allocated to each member company for its portion of net operating losses and carryforwards in the year they are used by the consolidated group. Companies have the enforceable right to recoup prior payments in the event of future losses. Inter-company tax balances are settled quarterly. A provision is made, where applicable, for taxes on foreign operations.

As of December 31, 2007 and 2006, the components of the net deferred tax assets and liabilities are as follows:

	2007	2006
Gross deferred tax assets	$ 2,312,176	$ 1,891,671
Gross deferred tax liabilities	(1,037,796)	(769,449)
Net deferred tax asset	1,274,380	1,122,222
Net deferred tax asset non-admitted	(440,048)	(299,973)
Net admitted deferred tax asset	$ 834,332	$ 822,249

The provision (benefit) for incurred taxes on earnings for the years ended December 31 are:

	2007	2006
Federal	$ 79,811	$ 375,732
Federal income tax on net capital gains	86,514	55,927
Utilization of net operating loss	-	(17,911)
Foreign	27,427	14,776
Federal and foreign income taxes incurred	$ 193,752	$428,524

The Companies' deferred tax assets and liabilities result primarily from discounting of unpaid claims and claim adjustment expense reserves, limits on unearned premium reserve deductions, deferred compensation deductions, reversal of discount accretion on bonds, investment impairments, fixed asset depreciation differences, unrealized gains, statutory non-admitted assets, net operating loss carryforwards, and tax credit carryforwards.

Effective tax rates differ from the current statutory rate of 35% principally due to the effects of tax-exempt interest, excludible dividend income, foreign operations, revisions to prior year estimates, and changes in deferred taxes related to non-admitted assets.

The Companies paid taxes of $293,061 and $336,119 in 2007 and 2006, respectively.

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The amount of Federal income taxes incurred and available for recoupment in the event of future losses is $283,866 from the current year and $313,083 from the preceding year.

As of December 31, 2007, the Companies have net operating loss carry forwards of $1,004 generated in 2002 and expiring in 2022.

The Companies also have alternative minimum tax credits of $19 that do not expire and foreign tax credits of $60,023 as follows:

Year Generated	Amount	Expiration
2002	$ 2,611	2012
2003	$ 43,703	2013
2004	$ 13,709	2014

The Companies have not provided for deferred taxes on unremitted earnings of subsidiaries outside the United States where such earnings are permanently invested and the Companies do not expect those unremitted earnings to reverse and become taxable to the Companies in the foreseeable future. At December 31, 2007, unremitted earnings of foreign subsidiaries were $795,066. If these earnings were distributed in the form of dividends or otherwise, the Companies would be subject to U.S. income taxes less an adjustment for applicable foreign tax credits.

The IRS has completed its review of the Companies' federal income tax returns through the 1998 tax year and is currently reviewing income tax returns for the 1999 through 2005 tax years. Any adjustments that may result from the IRS examinations of these income tax returns are not expected to have a material impact on the financial position, liquidity or results of operations of the Companies.

A reconciliation of the beginning and ending unrecognized tax benefit (expense) is as follows:

	2007
Balance at December 31, 2006	$ 15,935
Additions for tax positions of prior years	(38,933)
Settlements	(15,935)
Balance at December 31, 2007	$ (38,933)

Included in the balance at December 31, 2007, are $43,090 related to tax positions that would impact the effective tax rate.

The Companies recognize interest and penalties related to unrecognized tax benefits in Federal and foreign income tax expense. The Companies accrued $2,328 and ($2,459) in interest and penalties for the years ended December 31, 2007 and 2006, respectively. The Companies had approximately $2,328 and ($2,459) of interest and penalties accrued at December 31, 2007 and 2006, respectively.

The Companies do not expect any material changes to the unrecognized tax benefits within 12 months of the reporting date.

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(11) Benefit Plans

(a) Pension Plans and Postretirement Benefit

The U.S. Liberty Mutual Retirement Benefit Plan and Supplemental Income at Retirement Plan (SIRP) defined benefit pension plans are sponsored by LMGI. Accordingly, the plan assets and obligations are not included in the Companies' summary of assets and obligations as of December 31, 2007 and 2006. Also, the Employees' Thrift-Incentive Plan and Supplemental Income at Retirement Plan (SIRP) defined contribution pension plans are sponsored by LMGI.

The Companies' continue to sponsor non-contributory defined benefit and contributory defined contribution pension plans covering substantially all Canadian and certain U.S. employees. The benefits and eligibility are based on age, years of service and the employee's compensation, as more fully defined in the Plan. As of December 31, 2007, the Companies accrued pension cost in accordance with the actuarially determined amounts, with an offset for the incremental asset amortization.

The Liberty Mutual U.S. postretirement healthcare and life benefit obligations, except for Death Benefit Only (DBO) plan (split-dollar life), are also sponsored by LMGI. Accordingly, the plan assets and obligations are not included in the Companies' summary of assets and obligations as of December 31, 2007 and 2006.

The Companies recorded an obligation effective January 1, 2006 for the Death Benefit Only (DBO) plan postretirement life benefit (split-dollar life). Certain U.S. employees may become eligible for this benefit if they reach retirement age and have ten years of service working for the Companies, as more fully defined in the Plan.

The Companies continue to provide certain healthcare and life insurance benefits for retired Canadian employees. Substantially all Canadian employees may become eligible for these benefits if they reach retirement age and have ten years of service working for the Companies, as more fully defined in the Plan.

A summary of assets, obligations, and assumptions of the Pension Plans and Postretirement Benefit Plans are as follows at December 31, 2007 and 2006:

	Pension		Postretirement	
	2007	2006	2007	2006
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 114,155	$ 131,581	$ 3,825	$ 2,124
Service costs	2,632	3,835	-	-
Eligibility costs	-	-	80	328
Interest costs	6,313	7,319	198	278
Amendments	1,801	-	-	-
Actuarial (gains) or losses	(14,472)	(23,678)	(490)	459
Currency exchange rate change	8,574	(309)	451	(30)
Addition of DBO Life	-	-	-	849
Benefits paid	(4,760)	(4,593)	(247)	(183)
Benefit obligation at end of year	$ 114,243	$ 114,155	$ 3,817	$ 3,825

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	Pension		Postretirement	
Change in plan assets:	2007	2006	2007	2006
Fair value of plan assets at beginning of year	$ 43,235	$ 36,094	$ -	$ -
Actual return on plan assets	332	6,873	-	-
Currency exchange rate change	7,469	(446)	-	-
Employer contribution	4,045	5,307	247	183
Benefits paid	(4,760)	(4,593)	(247)	(183)
Fair value of plan assets at end of year	$ 50,321	$ 43,235	$ -	$ -
Reconciliation of Funded Status:				
Funded status of the plan	$ (63,923)	$ (70,920)	$ (3,817)	$ (3,825)
Unrecognized net gain (loss)	8,432	18,713	675	1,133
Unamortized prior service cost	2,312	597	-	-
Unrecognized net transition obligation (asset)	1,505	2,431	998	949
Net amount recognized	$ (51,674)	$ (49,179)	$ (2,144)	$ (1,743)
Vested accumulated benefit obligation	$ 92,252	$ 92,149	$ 3,817	$ 3,825
Non-vested benefit obligation	$ -	$ -	$ 4,161	$ 4,004

	Pension		Postretirement	
	2007	2006	2007	2006
Components of net periodic benefit cost:				
Service costs	$ 2,632	$ 3,835	$ -	$ -
Eligibility costs	-	-	80	328
Interest costs	6,313	7,319	198	278
Expected return on plan assets	(3,243)	(2,767)	-	-
Amortization of unrecognized:				
Net loss (gain)	1,072	3,311	36	1
Prior service cost	162	81	-	-
Net transition obligation	36	60	108	104
Total net periodic benefit costs	$ 6,972	$ 11,839	$ 422	$ 711
Amounts recognized in the statutory-basis financial statements consist of:				
Prepaid benefit costs	$ 7,400	$ 5,490	$ -	$ -
Accrued benefit liability	(60,500)	(55,904)	(2,144)	(1,743)
Minimum pension liability	1,059	1,115	-	-
Intangible asset	367	120	-	-
Net amount recognized	$ (51,674)	$ (49,179)	$ (2,144)	$ (1,743)
Change in minimum pension liability	$ (56)	$ (1,014)	-	-

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(dollars in thousands)

	Pension		Postretirement	
	2007	2006	2007	2006
Weighted-average assumptions used to determine net periodic costs:				
Discount rate	5.70%	5.50%	5.70%	5.50%
Expected return on plan assets	7.50%	7.50%	-	-
Rate of compensation increase	4.70%	4.70%	-	-

The measurement date used to measure the pension and postretirement measures is December 31. The weighted average discount rates used in determining the year-end pension and post-retirement obligations was 6.00% in 2007 and 5.70% in 2006.

The average health care cost trend rates assumed for 2008 is 8.00% graded down to 5.00% in 2012. Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-percentage point increase	1-percentage point decrease
Effect on total postretirement benefit obligation	$ 256	$ (220)
Effect on total of eligibility cost and interest cost	$ 24	$ (20)

(b) Defined Contribution Plans

The Companies continues to sponsor various defined contribution savings plans for Canadian and certain U.S. employees. The Companies' expense charged to operations amounted to approximately $1,027 and $951 in 2007 and 2006, respectively. The Companies' contribution to the defined contribution plans is based on the employee contribution amounts and profitability.

(c) Holding Company Plans

The Companies' U.S. eligible employees participate in non-contributory defined benefit pension plans and contributory defined contribution pension plans sponsored by LMGI, a holding company. The Companies have no legal obligation for benefits under these plans subsequent to September 24, 2003. LMGI allocates defined benefit pension amounts to the Companies based on paid amounts. LMGI allocates defined contribution pension and postretirement amounts to the Companies based on Statutory incurred amounts.

LMGI allocated $213,152 and $232,775 of defined benefit pension expense to the Companies in 2007 and 2006, respectively. LMGI allocated $120,848 and $87,108 of defined contribution pension expense to the Companies in 2007 and 2006, respectively. LMGI allocated $46,020 and $49,284 of postretirement expense to the Companies in 2007 and 2006, respectively.

(d) Other Compensation Plans

The Companies provide various performance based incentive compensation plans to employees meeting the participation requirements of the respective plans. Performance compensation is determined in accordance with plan formulas. For the years ended December 31, 2007 and 2006, compensation expense related to the Companies' performance incentive plans was $505,433 and $450,112, respectively.

(dollars in thousands)

(e) Asset Allocation

The pension plan's weighted-average asset allocation by asset category is as follows:

Asset Category	**2007**	**2006**
Equity Investments	68%	70%
Debt Investments	22%	20%
Other	10%	10%
Total	**100%**	**100%**

The Companies recognize that, based on historical data, the asset classes most likely to produce the greatest return in excess of inflation over time are also likely to exhibit the most volatility. Conversely, the asset classes likely to be the least volatile are likely to produce the lowest return over time. Therefore, the investment philosophies and strategies must take into account both return and risk objectives.

Based on the following considerations, the Companies can tolerate a moderate amount of risk while striving to maximize investment returns:

(i) The Companies are responsible for financing any unfunded liabilities emerging because of poor investment returns. Therefore, the Companies have a direct exposure to risk. While it is important to avoid excessive volatility in investment returns, the Companies can tolerate some volatility risk;

(ii) The Companies contribute to the Plan in compliance with regulatory requirements and at a level sufficient to finance the defined benefits. The Companies will establish these contributions based on the advice of an actuary. However, periodic increases in pension contributions, to finance unfunded liabilities emerging from poorer than expected investment performance, should not significantly affect the Companies overall cash flow. Therefore, the Companies can tolerate some volatility of investment returns; and,

(iii) The Plan is managed on a going concern basis, including management of the assets. In the foreseeable future, it is unlikely that there will be any special liquidity demands on the Plan. Thus, shorter-term fluctuations in security values will not have a significant adverse impact on the financial stability of the Plan. Therefore, the Companies can tolerate some volatility of investment returns.

Taking into consideration the investment risk and philosophy of the Plan, the following asset mix has been established:

Assets	**Minimum %**	**Target Mix %**	**Maximum %**
Equity Investments	45	70	85
Debt Investments	15	30	40
Other	0	0	10

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(f) Expected long-term rate of return assumption
The expected long-term rate of return is estimated based on many factors including the expected forecast for inflation, risk premiums for each asset class, expected asset allocation, current and future financial market conditions, and diversification and rebalancing strategies.

(g) Expected Future Benefit Payments
The following benefit payments, which reflect expected future service, net of participants' contributions, are as follows:

	Pension	Postretirement Benefits
2008	$ 5,100	$ 201
2009	5,203	213
2010	5,375	223
2011	5,515	235
2012	5,686	247
2013-2017	33,196	1,495

(h) Expected Company Contributions
The Companies expect to contribute $6,427 and $201 to the pension and postretirement plans, respectively, in 2008.

(12) Dividend Restrictions
LMIC's, LMPICO's, LMFIC's and EICOW's ability to pay dividends is restricted under applicable insurance laws and regulations. Under the insurance laws of the domiciliary states of LMIC, LMPICO, LMFIC and EICOW, an insurer may make an ordinary dividend payment if its surplus as regards to policyholders, following such dividend, is reasonable in relation to its outstanding liabilities and adequate to its financial needs. However, no insurer may pay an extraordinary dividend without the approval or non-disapproval of the domiciliary insurance regulatory authority. Under the insurance laws of Massachusetts, the domiciliary state of LMIC and LMPICO, an extraordinary dividend is defined as a dividend whose fair market value, together with other dividends made within the preceding 12 months, exceeds the greater of 10% of the insurer's surplus as regards policyholders as of the preceding December 31, or the insurer's net income for the 12-month period ending on the preceding December 31. Under the insurance laws of Wisconsin, the domiciliary state of EICOW and LMFIC, an extraordinary dividend is defined as a dividend whose fair market value, together with the fair market value of other dividends paid within the preceding 12 months, exceeds the lesser of (a) 10% of the insurer's surplus as regards policyholders as of the preceding December 31, or (b) the greater of (1) the insurer's net income for the preceding calendar year, minus realized capital gains for that calendar year, or (2) the aggregate of the insurer's net income for the three preceding calendar years minus realized capital gains for those calendar years and minus dividends paid within the first two of the preceding three calendar years. The maximum dividend payout in 2008 that may be made by LMIC, LMPICO, LMFIC and EICOW, prior to regulatory approval is $1,400,044.

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(13) Commitments and Contingent Liabilities

As a result of purchased annuities with the claimant as payee, the Companies no longer carry reserves of $1,085,751. The Companies are contingently liable should the issuers of the purchased annuities fail to perform under the terms of the annuities. The amount of unrecorded loss contingencies related to the purchased annuities was $1,085,751 as of December 31, 2007.

Purchased structured settlement annuities exceeding one percent of policyholders' surplus as of December 31, 2007 are as follows:

Life Insurance Company and Location	Licensed in Company's State of Domicile (Yes/No)	Statement Value of Annuities
The Prudential Insurance Company of America Newark, New Jersey	Yes	$ 523,636
Liberty Life Assurance Company of Boston Boston, Massachusetts	Yes	$ 326,979
Nationwide Life Insurance Company Columbus, Ohio	Yes	$ 155,384

The Companies accrued a liability for guaranty funds and other assessments of $274,186 and $276,700 as of December 31, 2007 and 2006, respectively. Liabilities for guaranty funds and other insurance-related assessments are not discounted. As of December 31, 2007 and 2006, a receivable for future premium tax credits related to these assessments was $38,936 and $49,269, respectively. This represents management's best estimate of the guaranty fund and other assessment liability. The related asset is limited to the amount that is determined based on future premium collections or policy surcharges from policies in force. Current assessments are expected to be paid out over the next five years; while premium tax offsets are expected to be realized within one year.

The Companies have reinsurance funds held balances of approximately $1,627,089, which are subject to ratings triggers whereby if any of the Companies' insurance financial strength ratings (with the three major rating agencies) fall below the A- or A3 categories, the funds may be required to be placed in trust and invested in acceptable assets. The Companies have no additional material ratings triggers.

At December 31, 2007, the Companies had commitments to purchase various mortgage-backed securities settling in 2008, at a cost of $19,444 and a fair market value of $19,513, which are included as fixed maturities in the combined statutory-basis balance sheets. As of December 31, 2007, the Companies had $1,510,916 of unfunded capital commitments for private equity investments.

The Companies lease certain office facilities and equipment from others under operating leases expiring in various years through 2016. In addition, the Companies are party to two land leases expiring in 2025 and 2101. Rental expense amounted to $157,772 and $155,804 for the years ended December 31, 2007 and 2006, respectively. It is expected that as leases expire they will be replaced.

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Future minimum rental payments under non-cancelable leases with terms in excess of one year are estimated to be:

Year	Operating Leases	Land Leases	Net Lease Obligations
2008	$ 95,958	$ 8,331	$ 104,289
2009	89,784	8,494	98,278
2010	65,957	8,171	74,128
2011	35,543	5,958	41,501
2012 and thereafter	200,367	152,831	353,198
Total	$ 487,609	$ 183,785	$ 671,394

The Companies have entered into sale-leaseback arrangements with unrelated parties on certain property, plant and equipment ("PP&E"). Equipment agreements are under thirteen-month lease periods with monthly renewal options to a maximum of sixty months. The Companies have a purchase option for all PP&E at the end of each respective lease. The Companies did not sell non-admitted assets in 2007. In 2006, the Companies sold non-admitted assets with a book value of $25,988. The Companies received cash in the amount of $28,165, resulting in a deferred gain of $2,177. The following is a schedule of the Companies' current minimum lease obligations:

Year	Sale Lease-back
2008	$ 36,534
2009	31,038
2010	21,738
2011	5,722
2012 and thereafter	-
Total	$ 95,032

The Companies guarantee $27,000 of medium term notes payable which are obligations of its parent company, LMGI.

The Companies guarantee the performance of the obligations of LMGI under a $1,000,000 commercial paper program. There was no commercial paper outstanding as of December 31, 2007.

The Companies guarantee the performance of the obligations of LMGI under a $750,000 five-year revolving credit agreement. This revolving line of credit serves as back-up facility for the commercial paper program. The amount outstanding as of December 31, 2007 was $0.

The Companies are contingently liable for the performance of Liberty Corporate Capital Limited's ("LCCL") obligations under standby letters of credit in the aggregate amount of $703,398 of which $534,503 has been collateralized. As of December 31, 2007, there have been no drawings under the standby letters of credit.

The Companies guarantee the performance of LCCL under a credit agreement in the amount of $100,000. As of December 31, 2007, there have been no drawings under the credit agreement.

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The Companies guarantee the future non-cancellable lease obligations of Liberty Information Technology Ltd. in the amount of $11,752 or £5,914.

The Companies guarantee the performance of Liberty Mutual Insurance Europe Limited ("LMIE") under a credit agreement in the amount of $20,000. As of December 31, 2007, there have been no outstanding drawings under the agreement.

The Companies guarantee obligations of Liberty Life Assurance Company of Boston on policies and contracts issued and are obligated to provide additional capital to that company necessary at any time to raise its Best Capital Adequacy Ratio to at least 150%.

The Companies guarantee obligations of Liberty Re (Bermuda) Limited under certain reinsurance policies issued.

The Companies guarantee obligations of LMIE on policies and contracts issued until such time as LMIE can achieve a Standard & Poor's rating as specified in the guarantee.

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 results of operations or the financial position of the Companies.

Armstrong World Industries Inc. ("Armstrong"), a signatory to the Wellington Agreement, a 1985 settlement agreement involving a number of asbestos products manufacturers and their insurers (the "Wellington Agreement"), is the Companies' remaining Tier I asbestos defendant with unresolved claims and coverage disputes. The Companies have been in various insurance coverage disputes with Armstrong for over twenty years.

Armstrong filed a Chapter 11 Bankruptcy petition in the United States Bankruptcy Court for the District of Delaware in December 2000. A plan of reorganization was confirmed in August 2006, and Armstrong formally emerged from bankruptcy as of October 2, 2006.

A Declaratory Judgment action, filed against the Companies by Armstrong in 2002, is pending in the United States District Court for the Eastern District of Pennsylvania (the "Pennsylvania Coverage Action") seeking coverage for asbestos claims under insurance policies issued to Armstrong during the period 1973 to 1981, including, but not limited to, damages and a declaration regarding the availability, applicability and scope of alleged non-product coverage not subject to the aggregate limits of the policies. Armstrong contends that a significant portion of its asbestos liability arises from operations that would entitle Armstrong to insurance coverage under the disputed policies without regard to the aggregate limit of liability. The Pennsylvania Coverage Action is currently in the initial pleading stages and, while it has been inactive by agreement of the parties since 2002, the court reactivated the case at a scheduling conference on October 22, 2007. The parties are currently in the early stages of exchanging paper discovery. A Scheduling Order has not yet been entered by the Court.

In July 2004, the Companies prevailed in a favorable arbitration ruling before an appellate panel regarding Armstrong's available insurance coverage under policies in effect from 1973-1981. Subsequently, Armstrong filed in the United States District Court for the Eastern District of

(dollars in thousands)

Pennsylvania, a motion to vacate that favorable ruling. The Companies have filed a cross motion seeking to confirm the final decision. Both motions remain pending at this time.

The Companies intend to vigorously defend its position in all pending coverage litigation with Armstrong, including any argument that coverage issues were finally determined in the bankruptcy proceedings. Management believes that the ultimate liability, if any, to Armstrong will not be resolved for at least one year and very likely may not be known for several years. In the opinion of management, the outcome of these pending matters is difficult to predict and an adverse outcome could have a material adverse effect on the Companies' business, financial condition, and results of operations.

(14) Direct Premium Written/Produced by Managing General Agents/Third Party Administrators

The Company utilizes managing general agents and third party administrators in its operation. Information regarding the managing general agent with direct premiums written greater than 5% of surplus, is as follows:

Name and Address of Managing General Agent or Third-Party Administrator	FEIN	Exclusive Contract	Types of Business Written	Types of Authority Granted	Total Direct Premiums Written/ Produced By
Asurion Insurance Services Inc* 648 Grassmere Park, Suite 300, Nashville, TN 37211	62-1463468	N	Inland Marine	U, P, CA	$ 872,667

*As defined by the statutes of the Commonwealth of Massachusetts

CA – Claims Adjustment
P – Premium Collection
U – Underwriting

(15) Subsequent Events

Effective January 1, 2008, Bridgefield Employers Insurance Company and Bridgefield Casualty Insurance Company novated their 100% quota share agreements with Liberty Mutual Insurance Company to substitute Peerless Insurance Company as the reinsurer.

On April 23, 2008, LMGI and Safeco Corporation (Safeco) announced that they have entered into a definitive agreement pursuant to which LMGI, through its subsidiaries, will acquire with cash all outstanding shares of common stock of Safeco for $68.25 per share or approximately $6.2 billion. The proposed transaction, which has been approved by the Board of Directors of both companies, is subject to approval by Safeco shareholders and customary regulatory approvals and conditions, and is expected to close by the end of the third quarter of 2008.

Ernst & Young

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**Report of Independent Auditors on
Other Financial Information**

The Boards of Directors
Liberty Mutual Holding Company Inc.

Our audits were conducted for the purpose of forming an opinion on the combined statutory-basis financial statements of Liberty Mutual Insurance Company Pool taken as a whole. The accompanying supplemental reinsurance and investment disclosures are presented to comply with the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual and are not a required part of the combined statutory-basis financial statements. Additional disclosures of the combining statutory-basis balance sheets of the Liberty Mutual Insurance Company Pool as of December 31, 2007, and combining statutory-basis statements of income and changes in statutory surplus for the year then ended are presented for purpose of additional analysis and are not a required part of the combined statutory-basis financial statements. Such information has been subjected to auditing procedures applied in our audit of the combined statutory-basis financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined statutory-basis financial statements taken as a whole.

This report is intended solely for the information and use of the Liberty Mutual Insurance Company Pool and state insurance departments to whose jurisdiction the Liberty Mutual Insurance Company Pool are subject and is not intended to be used by anyone other than these specified parties.

Ernst + Young LLP

May 9, 2008

LIBERTY MUTUAL INSURANCE COMPANY POOL

Supplemental Schedule of Selected Financial Data

December 31, 2007

(dollars in thousands)

Reinsurance Interrogatories
December 31, 2007

1. Has the reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)? Yes [x] No [ ]

2. If yes, indicate the number of reinsurance contracts containing such provisions. 6

3. If yes, does the amount of reinsurance credit taken reflect the reduction in quota share coverage caused by any applicable limiting provision(s)? Yes [ ] No [x]

4. Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 3% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 3% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:

   (a) A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;

   (b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;

   (c) Aggregate stop loss reinsurance coverage;

   (d) An unconditional or unilateral right by either party to commute the reinsurance contract except for such provisions which are only triggered by a decline in the credit status of the other party;

(e) A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or

(f) Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity. Yes [x] No [ ]

5. Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member where:

(a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or

(b) Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates. Yes [x] No [ ]

6. If yes to 4 or 5, please provide the following information:

(a) The aggregate financial statement impact gross of all such ceded reinsurance contracts on the balance sheet and statement of income;

(b) A summary of the reinsurance contract terms and indicate whether it applies to the contracts meeting the criteria in 4 or 5; and

(dollars in thousands)

(c) A brief discussion of management's principle objectives in entering into the reinsurance contract including the economic purpose to be achieved.

(A) Financial Impact				
		(1) As Reported	(2) Reinsurance Effect	(3) Restated Without Reinsurance
A01.	Assets	$ 43,215,544	$ 28,188	$ 43,187,356
A02.	Liabilities	$ 29,114,590	$ (587,923)	$ 29,702,513
A03.	Surplus as regards to policyholders	$ 14,100,954	$ 616,111	$ 13,484,843
A04.	Net Income	$ 732,894	$ (179,924)	$ 912,818

(B) Summary of Reinsurance Contract Terms	(C) Management's Objectives
WC excess of loss treaty. Provides layers of aggregate protection for WC losses of $9M xs $1M. This contract is being reported pursuant to Interrogatory 9.1(d.)	To obtain excess coverage due to unpredictability of medical inflation.
WC excess of loss treaty. Provides layers of aggregate protection for certain WC losses of $9.5M xs $500K. This contract is being reported pursuant to Interrogatory 9.1(d.)	To obtain excess coverage due to unpredictability of medical inflation.
WC excess of loss treaty. Provides layers of aggregate protection for Involuntary market WC losses. This contract is being reparted pursuant to Interrogatory 9.1 (c) & (d.)	To obtain excess coverage due to unpredictability of medical inflation.
Uncapped quota share cession of the Company's Auto Physical Damage business to a subsidiary. This contract is being reported pursuant to Interrogatory 9.2(a.)	Risk and Capital Management.
Uncapped quota share cession of the Company's Other Liability business to a subsidiary. This contract was non-renewed in 2005. This contract is being reported pursuant to Interrogatory 9.2(a.)	Risk and Capital Management.
Aggregate Excess of Loss Reinsurance Agreement-provides stop-loss reinsurance coverage for certain liabilities the Company did not desire to aquire as part of the acquisitition from Prudential Financial, Inc. This contract is being reported pursuant to Interrogatory 9.1(a.)	The Aggregate Excess of Loss Reinsurance Agreements were entered into to reinsure certain liabilities / runoff business the Company did not desire to acquire as part of the acquisition from Prudential Financial, Inc.
Aggregate Excess of Loss Reinsurance Agreement-provides stop-loss reinsurance coverage for certain liabilities the Company did not desire to aquire as part of the acquisitition from Prudential Financial, Inc. This contract is being reported pursuant to Interrogatory 9.1(a.) and 9.2 (a.)	The Aggregate Excess of Loss Reinsurance Agreements were entered into to reinsure certain liabilities / runoff business the Company did not desire to acquire as part of the acquisition from Prudential Financial, Inc.
Quota Share Agreement provides 100% quota share coverage for certain lines of business acquired through a distribution agreement with the reinsurer. This contract is being reported pursuant to Interrogatory 9.1 (a.) and 9.1 (c.)	The contract was negotiated and executed prior to Liberty Mutual Insurance Company's acquisition of Prudential General Insurance Company.

LIBERTY MUTUAL INSURANCE COMPANY POOL

Supplemental Schedule of Selected Financial Data

December 31, 2007

(dollars in thousands)

(B) Summary of Reinsurance Contract Terms	(C) Management's Objectives
Aggregate Ultimate Net Loss Agreement - provides coverage for certain lines of business. This contract is being reported pursuant to Interrogatory 9.1 (c.)	The contract was negotiated and executed prior to Liberty Mutual Insurance Company's acquisition of Prudential Property and Casualty Insurance Company.

7. Except for transactions meeting the requirements of paragraph 30 of SSAP No. 62, *Property and Casualty Reinsurance*, has the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:

    (a) Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles ("SAP") and as a deposit under generally accepted accounting principles ("GAAP"); or

    (b) Accounted for that contract as reinsurance under GAAP and as a deposit under SAP? Yes [ ] No [x]

8. If yes to 7, explain why the contract(s) is treated differently for GAAP and SAP. N/A

LIBERTY MUTUAL INSURANCE COMPANY POOL

Supplemental Schedule of Selected Financial Data

December 31, 2007

(dollars in thousands)

Investment Risks Interrogatories

1. The Liberty Mutual Insurance Company Pool ("the Companies") total admitted assets as reported on page two of the Companies' Annual Statements for the year ended December 31, 2007 is $43,215,544.

2. Following are the 10 largest exposures to a single issuer/borrower/investment, by investment category excluding (i) U.S. government, U.S. government agency securities and those U.S. government money market funds listed in the Appendix to the *SVO Purposes and Procedures Manual* as exempt, (ii) property occupied by the Companies and (iii) policy loans.

Name of Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
a. Ohio Casualty Company	Investment in Affiliate	$2,544,886	5.9%
b. Liberty International Holdings, LLC	Investment in Affiliate	2,031,101	4.7%
c. Liberty Insurance Holdings	Investment in Affiliate	1,789,986	4.1%
d. Small Business Administration	Bonds	546,917	1.3%
e. St James/Arlington St Real Estate, LLC	Investment in Affiliate	508,314	1.2%
f. Liberty Energy Holdings, LLC	Investment in Affiliate	497,974	1.2%
g. Liberty Life Assurance Co	Investment in Affiliate	482,428	1.1%
h. J.P. Morgan Prime-Capital Funds	Mutual Funds	472,554	1.1%
i. Golden Eagle Insurance Corporation	Investment in Affiliate	312,420	0.7%
j. Government of Canada	Bonds	297,416	0.7%

3. The Companies' total admitted assets held in bonds, preferred stocks and short-term investments by NAIC rating at December 31, 2007, are:

Bonds, S/T Investments, Cash Equivalents	Amount	Percentage of Total Admitted Assets	Preferred Stocks	Amount	Percentage of Total Admitted Assets
NAIC-1	$ 20,113,534	46.54%	P/RP-1	$ 442,767	1.02%
NAIC-2	1,268,616	2.94%	P/RP-2	2,809	0.01%
NAIC-3	807,152	1.87%	P/RP-3	13,127	0.03%
NAIC-4	642,583	1.49%	P/RP-4	-	0.00%
NAIC-5	75,091	0.17%	P/RP-5	-	0.00%
NAIC-6	14,357	0.03%	P/RP-6	-	0.00%
	$ 22,921,333	53.04%		$ 458,703	1.06%

4. The Companies' total admitted assets held in foreign investments (regardless of whether there is any foreign currency exposure) and unhedged foreign currency exposure (defined as the statement value of investments denominated in foreign currencies which are not hedged by financial instruments qualifying for hedge accounting as specified in SSAP No. 86—*Accounting for Derivative Instruments and Hedging, Income Generation, and Replication (Synthetic Asset) Transactions*), including (i) foreign-currency-denominated investments of $976,671 supporting insurance liabilities denominated in that same foreign currency of

(dollars in thousands)

$280,237 and excluding (ii) Canadian investments and currency exposure of $905,810 as of December 31, 2007, are $1,492,703. Foreign investments are less than 2.5% of the Companies' total admitted assets.

5. The Companies' total admitted assets held in Canadian investments and unhedged Canadian currency exposure, including Canadian-currency-denominated investments of $643,620 supporting Canadian-denominated insurance liabilities of $327,794 at December 31, 2007, are $905,810.

   Aggregate Canadian investment exposure:

	Amount	Percentage of Total Admitted Assets
a. Total admitted assets held in Canadian investments	$ 905,810	2.1%
b. Canadian-currency-denominated investments	643,620	1.5%
c. Canadian-denominated insurance liabilities	327,794	0.8%
d. Unhedged Canadian currency exposure	643,620	1.5%

6. The Companies' did not hold any investments with contractual sales restrictions (defined as investments having restrictions that prevent investments from being sold within 90 days) as of December 31, 2007.

7. The Companies' admitted assets held in the largest 10 equity interests (including investments in the shares of mutual funds, preferred stocks, publicly traded equity securities, and other equity securities (including BA equity interests), and excluding money market and bond mutual funds listed in the Appendix to the *SVO Practices and Procedures Manual* as exempt or Class 1) at December 31, 2007, are:

Name of Issuer	Amount	Percentage of Total Admitted Assets
a. Ohio Casualty Company	$ 2,544,886	5.9%
b. Liberty International Holdings, LLC	2,031,101	4.7%
c. Liberty Insurance Holdings	1,789,986	4.1%
d. St. James/Arlington St Real Estate, LLC	508,314	1.2%
e. Liberty Energy Holdings, LLC	497,974	1.2%
f. Liberty Life Assurance Co.	482,428	1.1%
g. J.P. Morgan Prime-Capital Funds	472,554	1.1%
h. Golden Eagle Insurance Corporation	312,420	0.7%
i. LMIA P&C Companies	194,398	0.4%
j. Liberty Structured Holdings, LLC	172,427	0.4%

8. The Companies' assets held in nonaffiliated, privately placed equities (included in other equity securities) and excluding securities eligible for sale under (i) Securities and Exchange Commission (SEC) Rule 144a or (ii) SEC Rule 144 without volume restrictions as of December 31, 2007, is less than 2.5% of the Companies' total admitted assets.

9. The Companies' total admitted assets held in general partnership interests (included in other equity securities) at December 31, 2007, are less than 2.5% of the Companies' total admitted assets.

LIBERTY MUTUAL INSURANCE COMPANY POOL

Supplemental Schedule of Selected Financial Data

December 31, 2007

(dollars in thousands)

10. Mortgage loans are less than 2.5% of the Companies' total admitted assets as of December 31, 2007.

11. Real Estate holdings are less than 2.5% of the Companies' total admitted assets as of December 31, 2007.

12. The Companies' total admitted assets subject to following types of agreements as of:

	December 31, 2007		(Unaudited) March 31, 2007	June 30, 2007	September 30, 2007
	Amount	Percentage of Total Admitted Assets	Amount	Amount	Amount
a. Securities lending (do not include assets held as collateral for such transactions)	$ 345,123	0.80 %	$ 767,497	$ 767,500	$ 508,053

13. The Companies' total admitted assets are not subject to repurchase agreements, reverse repurchase agreements, and dollar reverse repurchase agreements as of or for any period during the year ended December 31, 2007.

14. The Companies did not have any exposure to options, caps, floors, or warrants not attached to other financial instruments as of December 31, 2007.

15. The Companies did not have any exposure to collars, swaps, or forwards as of December 31, 2007.

16. The Companies did not have any exposure to futures contracts as of December 31, 2007.

LIBERTY MUTUAL INSURANCE COMPANY POOL

Supplemental Schedule of Selected Financial Data

December 31, 2007

(dollars in thousands)

Summary Investment Schedule

Investment Categories	Gross Investment Holdings*	Percentage of Gross Investment Holdings	Admitted Assets as Reported in the Annual Statement	Percentage of Admitted Invested Assets
Bonds:				
US Treasury Securities	$ 961,205	2.60%	$ 961,205	2.62%
US government agency and corporate obligations (excluding mortgage-backed securities)				
Issued by US Government Agencies	802,619	2.17%	802,619	2.19%
Issued by US Government-sponsored agencies	380,967	1.03%	380,967	1.04%
Foreign Government (including Canada, excluding mortgage- backed securities)	738,803	2.00%	738,803	2.01%
Securities Issued by States, Territories and Possessions and Political Subdivisions in the U.S.:				
State, territory and possessions - general obligations	1,887,261	5.11%	1,887,261	5.14%
Political subdivisions of states, territories and possessions – general obligations	1,162,490	3.15%	1,162,490	3.17%
Revenue and assessment obligations	3,182,797	8.62%	3,182,797	8.68%
Mortgage-backed securities (includes residential and commercial MBS):				
Pass-through securities:				
Issued or Guaranteed by GNMA	384,205	1.04%	384,205	1.05%
Issued or Guaranteed by FNMA and FHLMC	3,186,498	8.62%	3,186,498	8.69%
CMOs and REMICs				
Issued or Guaranteed by GNMA, FNMA, FHLMC or VA	2,021,690	5.47%	2,021,690	5.51%
Privately issued and collateralized by MBS issued or guaranteed by GNMA, FNMA, or FHLMC or VA	252,987	0.68%	252,987	0.69%
All Other	995,429	2.69%	995,429	2.71%
Other debt and other fixed income securities (excluding short-term):				
Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	5,119,834	13.85%	5,119,834	13.96%
Unaffiliated foreign securities	753,473	2.04%	753,473	2.05%
Equity interests:				
Investment in mutual funds	899,347	2.44%	899,347	2.46%
Preferred stocks:				
Affiliated	131	0.00%	131	0.00%
Unaffiliated	458,703	1.24%	458,703	1.25%
Publicly traded equity securities (excluding preferred stocks)				
Unaffiliated	1,829,538	4.95%	1,829,538	4.99%
Other equity securities:				
Affiliated	5,350,421	14.47%	5,068,636	13.82%
Unaffliated	4	0.00%	4	0.00%
Mortgage Loans on Real Estate	429,255	1.16%	429,255	1.17%
Commercial Loans	67,054	0.18%	67,054	0.18%
Real Estate Investments:				
Property occupied by Companies	440,899	1.19%	440,899	1.20%
Property held for production of income	1,070	0.00%	1,070	0.00%
Receivables for securities	20,766	0.06%	20,766	0.06%
Cash and short term investments	521,574	1.40%	521,574	1.42%
Other Invested Assets:	5,117,239	13.84%	5,115,641	13.94%
Total Cash and Invested Assets	$ 36,966,257	100.00%	$ 36,682,874	100.00%

* Gross investment holdings as valued in compliance with *NAIC Accounting Practices & Procedures Manual.*

Liberty Mutual Insurance Company Pool

Note to the Supplemental Schedule of Selected Financial Data

December 31, 2007

Basis of Presentation

The accompanying supplemental schedules present selected statutory basis financial data as of December 31, 2007 and for the year then ended for purposes of complying with the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual and agrees to or is included in the amounts reported in the Liberty Mutual Insurance Company Pool members' 2007 Statutory Annual Statements as filed with the applicable domiciliary state insurance departments.

LIBERTY MUTUAL INSURANCE COMPANY POOL
Combined Statutory Basis Balance Sheet
As of Dec 31, 2007
(dollars in thousands)

	Liberty Mutual Insurance Company	Liberty Mutual Fire Insurance Company	Liberty Insurance Corporation	LM Insurance Corporation	First Liberty Insurance Corporation	Employers Insurance Company of Wausau	Wausau General Insurance Company	Wausau Underwriters Insurance Company	Wausau Business Insurance Company	Bridgefield Employers Insurance Company	Bridgefield Casualty Insurance Company	Liberty Insurance Underwriters
Admitted Assets												
Investments:												
Fixed maturities	$ 15,335,086	$ 2,107,955	$ 769,634	$ 55,653	$ 37,103	$ 2,659,055	$ 17,989	$ 160,425	$ 118,448	$ 118,052	$ 44,968	$ 114,800
Common and preferred stocks	2,000,065	249,780	75,464	775	1,422	81,308	-	-	-	984	-	-
Investment in affiliates	9,093,649	234,158	-	-	-	232,257	-	-	-	39,995	-	-
Cash and short-term investments	828,120	108,681	107,343	2,958	2,989	115,369	16,458	15,335	17,245	(7,784)	26,466	7,566
Companies-occupied properties	418,561	-	-	-	-	22,338	-	-	-	-	-	-
Other invested assets	1,692,838	268,717	64,317	6	10	173,178	43	20	31	-	15	-
Total cash and invested assets	29,368,319	2,969,291	1,016,758	59,392	41,524	3,283,505	34,490	175,780	135,724	151,247	71,449	122,366
Premiums receivable, net	2,954,361	432,297	129,689	8,646	4,323	527,760	-	17,292	17,292	28,713	14,194	-
Deferred tax asset, net	630,159	78,602	26,187	1,371	715	90,836	94	2,782	2,780	(580)	(66)	(65)
Federal income tax receivable	118,948	(5,715)	(14,816)	(147)	(166)	(19,510)	(1,448)	395	(34)	(441)	(265)	(3,395)
Reinsurance recoverable on paid losses, net	685,885	-	-	-	-	69,194	1,333	25,042	14,356	21,029	13,155	24,669
Receivable from affiliates	156,956	914	314	23	(51)	8,556	(190)	7,670	1,117	(48,181)	18,767	(27,931)
Funds held by affiliates and other reinsurers	28,023	-	-	-	-	112	-	-	-	-	-	-
Other admitted assets	805,242	84,024	25,886	1,807	1,079	89,708	196	4,071	3,681	1,098	730	1,400
Total Admitted Assets	$ 34,747,893	$ 3,559,413	$ 1,184,018	$ 71,092	$ 47,424	$ 4,050,161	$ 34,475	$ 233,032	$ 174,916	$ 152,885	$ 117,964	$ 117,044
Liabilities and Surplus												
Liabilities:												
Unpaid claims	$ 12,594,762	$ 1,659,388	$ 497,817	$ 33,188	$ 16,594	$ 1,659,389	$ -	$ 66,376	$ 66,376	$ -	$ -	$ -
Unpaid claim adjustment expenses	2,572,655	338,953	101,686	6,779	3,390	338,953	-	13,558	13,558	-	-	-
Unearned premiums	3,678,688	484,676	145,403	9,694	4,847	484,676	-	19,387	19,387	-	-	-
Other liabilities and accrued expenses	969,538	74,122	15,138	1,008	506	132,079	-	2,052	2,043	23,138	4,689	11,113
Collateral held for securities loaned	115,599	6,263	49,562	-	-	16,214	3,209	6,896	6,527	-	-	-
Funds held under reinsurance contracts	1,878,183	-	-	-	-	30,418	-	-	-	-	-	63
Ceded reinsurance premium payable	851,676	-	-	-	-	55,304	1,142	32,577	15,427	9,061	27,014	19,421
Taxes, licenses and fees accrued	250,690	33,029	9,909	661	330	33,029	-	1,321	1,321	27,062	46,266	-
Federal income taxes accrued	-	-	-	-	-	-	-	-	-	-	-	-
Payable to affiliates	-	-	-	-	-	-	-	-	-	-	-	-
Policyholders dividends accrued	12,803	1,687	506	34	17	1,687	-	67	67	-	-	-
Total Liabilities	22,924,594	2,598,118	820,021	51,364	25,684	2,751,749	4,351	142,234	124,706	59,261	77,969	30,597
Surplus:												
Surplus notes	891,966	-	-	-	-	-	-	-	-	-	-	-
Special and other surplus funds	950,124	126,267	37,505	2,500	1,250	125,017	-	5,001	5,001	-	-	-
Contributed capital	4,358,949	185,000	159,663	11,000	11,000	345,000	21,399	79,648	53,800	43,324	32,000	63,530
Unassigned surplus	5,622,260	650,028	166,829	6,228	9,490	828,395	8,725	6,149	(8,591)	50,300	7,995	22,917
Total surplus	11,823,299	961,295	363,997	19,728	21,740	1,298,412	30,124	90,798	50,210	93,624	39,995	86,447
Total liabilities and surplus	$ 34,747,893	$ 3,559,413	$ 1,184,018	$ 71,092	$ 47,424	$ 4,050,161	$ 34,475	$ 233,032	$ 174,916	$ 152,885	$ 117,964	$ 117,044

See accompanying notes to the combined statutory-basis financial statements.

(A) Eliminations represent intercompany transactions and balances for each account.
(B) SSAP 67 reclass & Reinsurance adjustment

LIBERTY MUTUAL INSURANCE COMPANY POOL
Combined Statutory Basis Balance Sheet
As of Dec 31, 2007
(dollars in thousands)

	Liberty Lloyds of Texas Insurance Company	Liberty Mutual Personal Insurance Company	Liberty Insurance Company of America	Liberty Surplus Insurance Corporation	Liberty Personal Insurance Company	Liberty County Mutual Insurance Company	LM Property and Casualty Insurance Company	LM Personal Insurance Company	LM General Insurance Company	(A) Liberty Eliminations	(B) Reclasses	Liberty Pooled and Fronted Companies
Admitted Assets												
Investments:												
Fixed maturities	$ 2,499	$ -	$ 8,262	$ 56,572	$ 18,669	$ 12,081	$ 183,779	$ 6,736	$ 7,405	$ (4,915)	$ -	$ 21,830,256
Common and preferred stocks	-	-	-	-	-	-	4	-	-	-	-	2,409,802
Investment in affiliates	-	-	-	-	-	-	-	-	-	(1,096,747)	-	8,503,312
Cash and short-term investments	3,401	4,614	3,092	14,556	1,789	675	10,832	1,333	1,728	16,597	-	1,299,363
Companies-occupied properties	-	-	-	-	-	-	-	-	-	-	-	440,899
Other invested assets	-	-	3	40	-	-	24	-	-	-	-	2,199,242
Total cash and invested assets	5,900	4,614	11,357	71,168	20,458	12,756	194,639	8,069	9,133	(1,085,065)	-	36,682,874
Premiums receivable, net	-	-	-	9,907	-	109	103	-	-	-	(318,132)	3,826,554
Deferred tax asset, net	-	-	(76)	(44)	(9)	-	1,776	(104)	(26)	-	-	834,332
Federal income tax receivable	(45)	(41)	(85)	(413)	(131)	(151)	(300)	(39)	(68)	-		72,133
Reinsurance recoverable on paid losses, net	-	-	-	11,789	1,402	20	43,610	245	714	-	(274,516)	637,927
Receivable from affiliates	-	(25)	-	8,225	449	6	(15,894)	(224)	(710)	-	-	109,791
Funds held by affiliates and other reinsurers	-	-	-	-	-	-	569	-	-	-	-	28,704
Other admitted assets	53	19	123	662	235	75	2,039	84	70	947	-	1,023,229
Total Admitted Assets	$ 5,908	$ 4,567	$ 11,319	$ 101,294	$ 22,404	$ 12,815	$ 226,542	$ 8,031	$ 9,113	$ (1,084,118)	$ (592,648)	$ 43,215,544
Liabilities and Surplus												
Liabilities:												
Unpaid claims	$ -	$ -	$ -	$ -	$ -	$ -	$ 37,139	$ -	$ 755	$ -	$ -	$ 16,631,784
Unpaid claim adjustment expenses	-	-	-	-	-	-	2,134	-	-	-	-	3,391,666
Unearned premiums	-	-	-	-	-	-	-	-	-	-	-	4,846,758
Other liabilities and accrued expenses	-	-	-	6,048	-	18	11,631	5	90	995	(274,516)	979,697
Collateral held for securities loaned	-	-	-	-	-	-	4,802	968	1,005	-	-	211,045
Funds held under reinsurance contracts	-	-	-	19	-	-	1,681	276	512	-	-	1,911,152
Ceded reinsurance premium payable	-	-	-	27,216	-	104	1,192	(3)	3	-	(318,132)	722,002
Taxes, licenses and fees accrued	-	-	-	-	-	-	-	-	-	-	-	403,618
Federal income taxes accrued	-	-	-	-	-	-	-	-	-	-	-	-
Payable to affiliates	-	-	-	-	-	-	-	-	-	-	-	-
Policyholders dividends accrued	-	-	-	-	-	-	-	-	-	-	-	16,868
Total Liabilities	-	-	-	33,283	-	122	58,579	1,246	2,365	995	(592,648)	29,114,590
Surplus:												
Surplus notes	-	-	-	-	-	10,000	-	-	-	(10,000)	-	891,966
Special and other surplus funds	2,000	-	-	-	-	-	-	-	-	(2,000)	-	1,252,665
Contributed capital	3,000	4,300	10,500	56,000	21,054	-	155,951	6,357	6,712	(734,936)	-	4,893,251
Unassigned surplus	908	267	819	12,011	1,350	2,693	12,012	428	36	(338,177)	-	7,063,072
Total surplus	5,908	4,567	11,319	68,011	22,404	12,693	167,963	6,785	6,748	(1,085,113)	-	14,100,954
Total liabilities and surplus	$ 5,908	$ 4,567	$ 11,319	$ 101,294	$ 22,404	$ 12,815	$ 226,542	$ 8,031	$ 9,113	$ (1,084,118)	$ (592,648)	$ 43,215,544

See accompanying notes to the combined statutory-basis financial statements.

(A) Eliminations represent intercompany transactions and balances for each account.
(B) SSAP 67 reclass & Reinsurance adjustment

LIBERTY MUTUAL INSURANCE COMPANY POOL
Combined Statutory Statements of Income
Year ended, December 31, 2007
(dollars in thousands)

	Liberty Mutual Insurance Company	Liberty Mutual Fire Insurance Company	Liberty Insurance Corporation	LM Insurance Corporation	First Liberty Insurance Corporation	Employers Insurance Company of Wausau	Wausau General Insurance Company	Wausau Underwriters Insurance Company	Wausau Business Insurance Company	Bridgefield Employers Insurance Company	Bridgefield Casualty Insurance Company	Liberty Insurance Underwriters
Premiums earned	$ 8,956,741	$ 1,180,072	$ 354,021	$ 23,601	$ 11,801	$ 1,180,071	$ -	$ 47,203	$ 47,203	$ -	$ -	$ -
Claims	5,546,960	730,824	219,247	14,616	7,308	730,825	-	29,233	29,233	-	-	-
Claim adjustment expenses	1,420,100	187,102	56,130	3,742	1,871	187,101	-	7,484	7,484	-	-	-
Underwriting and other expenses	2,127,218	280,266	84,080	5,605	2,803	280,266	-	11,211	11,211	(14,262)	(22,221)	-
Premium and other taxes and assessments	358,775	47,268	14,181	945	473	47,269	-	1,891	1,891	14,262	22,221	-
Total underwriting expenses	9,453,053	1,245,460	373,638	24,908	12,455	1,245,461	-	49,819	49,819	-	-	-
Underwriting loss before dividends	(496,312)	(65,388)	(19,617)	(1,307)	(654)	(65,390)	-	(2,616)	(2,616)	-	-	-
Policyholder dividends	52,957	6,978	2,093	140	70	6,977	-	279	279	-	-	-
Underwriting loss	(549,269)	(72,366)	(21,710)	(1,447)	(724)	(72,367)	-	(2,895)	(2,895)	-	-	-
Net investment income	1,120,269	127,049	58,673	2,954	2,027	165,645	2,745	8,394	6,468	7,359	3,959	10,771
Realized investment gains, net	199,081	22,048	5,191	7	29	23,186	106	(2)	157	(1)	1	20
Other loss, net	(112,177)	(9,216)	(3,216)	(214)	(114)	(10,555)	-	(429)	(428)	-	-	675
Income before income taxes	657,904	67,515	38,938	1,300	1,218	105,909	2,851	5,068	3,302	7,358	3,960	11,466
Federal and foreign income taxes	217,401	17,143	(15,756)	485	431	(36,165)	(3,459)	129	356	2,891	1,374	3,960
Net income	$ 440,503	$ 50,372	$ 54,694	$ 815	$ 787	$ 142,074	$ 6,310	$ 4,939	$ 2,946	$ 4,467	$ 2,586	$ 7,506

See accompanying notes to combined statutory basis financial statements.

(A) Eliminations represent intercompany transactions and balances for each account.

LIBERTY MUTUAL INSURANCE COMPANY POOL
Combined Statutory Statements of Income
Year ended, December 31, 2007
(dollars in thousands)

	Liberty Lloyds of Texas Insurance Company	Liberty Mutual Personal Insurance Company	Liberty Insurance Company of America	Liberty Surplus Insurance Corporation	Liberty Personal Insurance Company	Liberty County Mutual Insurance Company	LM Property and Casualty Insurance Company	LM Personal Insurance Company	LM General Insurance Company	Liberty Eliminations (A)	Liberty Pooled and Fronted Companies
Premiums earned	$ -	$ -	$ -	$ -	$ -	$ -	$ (3)	$ -	$ -	$ -	$ 11,800,710
Claims	-	-	-	-	-	-	(1,192)	-	-	-	7,307,054
Claim adjustment expenses	-	-	-	-	-	-	1,078	-	(9)	-	1,872,083
Underwriting and other expenses	-	-	-	-	-	(102)	-	-	-	-	2,766,075
Premium and other taxes and assessments	-	-	-	-	-	3	-	-	-	-	509,179
Total underwriting expenses	-	-	-	-	-	(99)	(114)	-	(9)	-	12,454,391
Underwriting loss before dividends	-	-	-	-	-	99	111	-	9	-	(653,681)
Policyholder dividends	-	-	-	-	-	-	-	-	-	-	69,773
Underwriting loss	-	-	-	-	-	99	111	-	9	-	(723,454)
Net investment income	237	232	488	3,869	979	493	12,827	294	381	-	1,536,113
Realized investment gains, net	-	-	-	-	(10)	(7)	(414)	-	(9)	230	249,613
Other loss, net	-	-	-	191	-	(109)	(32)	-	(2)	-	(135,626)
Income before income taxes	237	232	486	4,060	969	476	12,492	294	379	230	926,646
Federal and foreign income taxes	83	81	124	1,406	278	(156)	2,929	11	206	-	193,752
Net income	$ 154	$ 151	$ 364	$ 2,654	$ 691	$ 632	$ 9,563	$ 283	$ 173	$ 230	$ 732,894

See accompanying notes to combined statutory basis financial statements.

(A) Eliminations represent intercompany transactions and balances for each account.

LIBERTY MUTUAL INSURANCE COMPANY POOL
Combined Statements of Changes in Statutory Surplus
Year ended December 31, 2007
(dollars in thousands)

	Liberty Mutual Insurance Company	Liberty Mutual Fire Insurance Company	Liberty Insurance Corporation	LM Insurance Corporation	First Liberty Insurance Corporation	Employers Insurance Company of Wausau	Wausau General Insurance Company	Wausau Underwriters Insurance Company	Wausau Business Insurance Company	Bridgefield Employers Insurance Company	Bridgefield Casualty Insurance Company	Liberty Insurance Underwriters
Statutory surplus, beginning of year	$ 9,952,130	$ 913,531	$ 329,679	$ 18,981	$ 21,014	$ 1,208,371	$ 26,494	$ 86,027	$ 47,280	$ 85,814	$ 28,892	$ 72,368
Add (deduct):												
Net income	440,503	50,372	54,694	815	787	142,074	6,310	4,939	2,946	4,467	2,586	7,506
Change in net unrealized capital gains (losses):												
From unconsolidated subsidiaries	514,375	2,817	-	-	-	(1,048)	-	-	-	1,302	-	-
From non-affiliated securities	24,574	173	(86)	(37)	(69)	(15,034)	-	(140)	-	(141)	-	-
Contributed capital	1,200,791	-	-	-	-	-	-	-	-	-	9,500	-
Change in non-admitted assets	(340,152)	(6,837)	3,813	(23)	(12)	2,948	555	(46)	(46)	705	(956)	307
Change in net admitted deferred tax asset	74,972	(1,933)	(19,802)	(12)	23	(39,174)	(2,681)	15	15	185	(26)	(54)
Dividends paid	(4,373)	-	-	-	-	-	-	-	-	-	-	-
Surplus note reitrement	(121,361)	-	-	-	-	-	-	-	-	-	-	-
Other surplus changes, net	81,840	3,172	(4,301)	4	(3)	275	(554)	3	15	1,292	(1)	6,320
Statutory surplus, end of year	$ 11,823,299	$ 961,295	$ 363,997	$ 19,728	$ 21,740	$ 1,298,412	$ 30,124	$ 90,798	$ 50,210	$ 93,624	$ 39,995	$ 86,447

See accompanying notes to combined statutory basis financial statements.

(A) Eliminations represent intercompany transactions and balances for each account.

LIBERTY MUTUAL INSURANCE COMPANY POOL
Combined Statements of Changes in Statutory Surplus
Year ended December 31, 2007
(dollars in thousands)

	Liberty Lloyds of Texas Insurance Company	Liberty Mutual Personal Insurance Company	Liberty Insurance Company of America	Liberty Surplus Insurance Corporation	Liberty Personal Insurance Company	Liberty County Mutual Insurance Company	LM Property and Casualty Insurance Company	LM Personal Insurance Company	LM General Insurance Company	Liberty Eliminations (A)	Liberty Pooled and Fronted Companies
Statutory surplus, beginning of year	$ 5,754	$ 4,416	$ 10,998	$ 63,607	$ 21,708	$ 12,061	$ 157,475	$ 5,794	$ 5,401	$ (992,638)	$ 12,085,157
Add (deduct):											
Net income	154	151	364	2,654	691	632	9,563	283	173	230	732,894
Change in net unrealized capital gains (losses):											
From unconsolidated subsidiaries	-	-	-	-	-	-	-	-	-	(85,654)	431,792
From non-affiliated securities	-	-	-	-	-	-	(312)	-	-	5,808	14,736
Contributed capital	-	-	-	-	-	-	-	800	1,200	(11,500)	1,200,791
Change in non-admitted assets	-	-	-	-	-	-	-	-	-	-	(339,744)
Change in net admitted deferred tax asset	-	-	(43)	(14)	5	-	622	(92)	(26)	-	11,980
Dividends paid	-	-	-	-	-	-	-	-	-	-	(4,373)
Surplus note reitrement	-	-	-	-	-	-	-	-	-	-	(121,361)
Other surplus changes, net	-	-	-	1,764	-	-	615	-	-	(1,359)	89,082
Statutory surplus, end of year	$ 5,908	$ 4,567	$ 11,319	$ 68,011	$ 22,404	$ 12,693	$ 167,963	$ 6,785	$ 6,748	$ (1,085,113)	$ 14,100,954

See accompanying notes to combined statutory basis financial statements.

(A) Eliminations represent intercompany transactions and balances for each account.