Ultimate Parent: Liberty Mutual Holding Company Inc.

LIBERTY MUTUAL INSURANCE COMPANY

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AMB#: 02283 **NAIC#:** 23043
Ultimate Parent#: 51114 **FEIN#:** 04-1543470

BEST'S RATING

Based on our opinion of the consolidated Financial Strength of the members of Liberty Mutual Insurance Companies, which operate under a business pooling arrangement, each pool member is assigned a Best's Rating of A (Excellent). The company is assigned the Financial Size Category of Class XV, which is the Financial Size Category of the pool.

RATING RATIONALE

The following text is derived from the report of Liberty Mutual Insurance Companies.

Rating Rationale: The rating applies to the consolidated results of the group's nine-member pool, led by Liberty Mutual Insurance Company, and ten reinsured domestic affiliates. The rating reflects the group's strong global franchise, excellent capitalization, successful risk mitigation and ongoing diversification, both domestically and globally. Partially offsetting these positive factors is the variability in statutory earnings reported for the domestic operations which trail the peer composite during the recent five- and ten-year period, partially impacted by storm-related losses as well as adverse loss reserve development occurring on prior accident years. Despite these concerns, the rating outlook reflects the earnings diversification achieved on a global basis which should somewhat insulate overall results as market conditions further soften, and the excellent capital position that is further enhanced by the financial flexibility afforded by its parent company.

Liberty Mutual is the nation's fifth-largest property/casualty insurer based on direct premiums written and operates four sizeable business units: Personal Markets, Commercial Markets, Agency Markets, and International. The group's diversified franchise benefits from its well-regarded service reputation, strong client relationships and effective, low-cost distribution network. Personal lines business continues to rank high among the group's top performing underwriting segments with new markets focused on countries with an emerging middle class. Liberty Mutual's extensive unbundled service capabilities, risk management services and strategic alliances with managed care networks provide a significant competitive advantage and a superior market profile.

The group's policyholder surplus experienced strong growth over the last five years, driven by solid operating income derived from improved underwriting performance, realized gains, and capital contributions related to various debt offerings by Liberty Mutual Group, Inc. (LMGI), the direct parent of Liberty Mutual Insurance Company. Given the group's objective to secure proper pricing through cycle management while achieving additional profitable diversification, A.M. Best believes profitability will remain solid and overall capitalization will more than support the rating going forward.

Although A.M. Best's primary rating concern has been the potential for additional adverse loss reserve development and the resulting earnings drag associated with this development, this concern has diminished somewhat in recent years with the improvement in accident year development, in combination with declining levels of adverse development reported on recent calendar years. Notwithstanding these reserve charges, while the group's pre-tax operating profitability has improved with underwriting performance in recent years, return measures continue to trail the peer composite.

Best's Rating: A p **Outlook: Stable**

FIVE YEAR RATING HISTORY

Date	Best's Rating
03/05/08	A p
02/28/07	A p
01/25/06	A p
06/17/04	A p
03/07/03	A p

KEY FINANCIAL INDICATORS

	Statutory Data ($000)		
Period Ending	Direct Premiums Written	Net Premiums Written	Pretax Operating Income
2003	2,449,520	5,837,881	34,358
2004	2,115,728	6,698,479	-21,182
2005	2,147,825	7,046,397	272,659
2006	2,457,476	7,889,647	1,198,822
2007	2,879,017	9,589,191	458,824
09/2007	2,063,095	7,506,872	169,686
09/2008	2,600,612	6,556,701	775,426

	Statutory Data ($000)		
Period Ending	Net Income	Total Admitted Assets	Policy-holders' Surplus
2003	93,665	22,145,152	6,123,094
2004	216,860	23,956,965	7,255,350
2005	584,140	26,011,608	7,924,697
2006	1,007,010	29,920,012	9,952,129
2007	440,504	34,829,205	11,823,300
09/2007	143,264	35,245,846	11,334,404
09/2008	677,332	32,213,469	9,313,063

	Profitability			Leverage			Liquidity	
Period Ending	Comb. Ratio	Inv. Yield (%)	Pretax ROR (%)	NA Inv Lev	NPW to PHS	Net Lev	Overall Liq (%)	Oper. Cash-flow (%)
2003	108.7	4.7	0.6	38.5	1.0	3.5	139.5	122.4
2004	107.2	3.4	-0.3	38.6	0.9	3.2	144.6	120.4
2005	107.3	4.4	4.0	36.2	0.9	3.2	145.0	124.1
2006	102.5	6.9	15.9	35.4	0.8	2.8	150.7	123.2
2007	104.3	4.2	5.1	37.0	0.8	2.7	152.2	154.4
5-Yr Avg	105.7	4.7	5.5	…	…	…	…	…
09/2007	104.3	XX	2.5	XX	0.8	2.9	148.2	168.1
09/2008	106.9	XX	12.2	XX	0.9	3.4	141.4	111.4

(*) Data reflected within all tables of this report has been compiled from the company-filed statutory statement. Within several financial tables of this report, this company is compared against the Commercial Casualty Composite.

BUSINESS REVIEW

The following text is derived from the report of Liberty Mutual Insurance Companies.

The Liberty Mutual Insurance Companies, led by Liberty Mutual Insurance Company, is principally engaged in underwriting virtually all lines of commercial and personal business and ranks as the fifth-largest property/casualty organization in the United States based on direct premiums written. Liberty's business mix is split approximately 60% commercial and 40% personal lines, with its once dominant workers' compensation line surpassed in 2002 by the growing personal automobile line on a global premium basis. Liberty remains a predominant private-sector player in this market and continues to thrive on its name recognition, customer service, technological advantages, strategic alliances in managed care, and breadth of its products and value-added services. Insurance products and services are solicited primarily through more than 1,500 direct agency sales agents which afford Liberty a significant competitive expense advantage relative to its peers while also enhancing the group's overall franchise value. In addition to direct sales, Liberty also markets commercial products to national insurance brokers as well as through independent agents. In personal lines, Liberty ranks eighth among the ten largest insurance providers in the United States. Augmenting its vast network of captive agents, Liberty also utilizes an affinity marketing program, which currently offers insurance products to employees of more than 8,700 companies and associations.

Liberty's property/casualty operation is organized geographically, while business operations are managed on a Strategic Business Unit (SBU) basis and are comprised of the Personal Markets, Commercial Markets, Agency Markets and Liberty International. The Personal Markets SBU serves individual insurance needs including the sale of individual life products and structured settlements for Liberty Life Assurance Company.

The Commercial Markets SBU serves the commercial customer and is comprised of six distinct units: 1) the National Market SBU serves customers with national operations and typically more than 1000 employees. Its insurance products and risk services are distributed through direct sales and broker relationships under the Liberty Mutual brand; 2) the Business Market SBU sells a wide array of insurance products to middle market business under the Liberty Mutual brand through its direct sales agents. The Business Market serves middle market customers, typically with 200 to 1000 employees; 3) Wausau Insurance, with business in all 50 states, has product offerings including wokers' compensation, commercial automobile, general liability, umbrella, property and package coverages and related risk management services; 4) Group Market SBU markets non-occupational disability and group life products to companies with more than 1000 employees via direct sales agents and major benefits consulting firms; 5) Liberty Mutual Property provides commercial property products to national and middle market customers through the United States. Its primary market is mono-line commercial property coverage, including physical loss or damage and business interruption coverage for middle market companies; 6) Other Markets include Liberty Mutual Reinsurance and state-mandated involuntary market workers' compensation and automobile assigned risk plans.

Agency Markets (AM) writes small to medium-sized commercial accounts and personal lines package policies. All business is produced by independent agents and brokers and is written by regionally branded operating entities. Agency Markets continues to expand distribution across market segments while providing a full range of products and services to agencies. It also includes the specialty operations of Liberty Mutual Surety and Summit Holding Southeast, Inc. Agency Markets is organized in the following business segments: 1) Regional companies use the brands America First Insurance, Colorado Casualty, Golden Eagle Insurance, Hawkeye-Security Insurance, Indiana Insurance, Liberty Northwest, Montgomery Insurance, Ohio Casualty, and Peerless Insurance. Each company writes several lines of business and all offer both commercial and personal products, with the exception of Golden Eagle Insurance, which only offers commercial lines insurance, excluding workers' compensation; 2) Summit Holding Southeast, Inc., provides workers' compensation products and services primarily in Florida and nine additional southeastern states; 3) Liberty Mutual Surety provides contract surety bonds for construction firms, manufacturers and suppliers, and commercial surety bonds for corporations and individuals on an account and transactional basis.

Liberty Mutual Group's international operations are managed through its strategic business unit, Liberty International. Liberty International provides insurance products and services through two distinct approaches. The first is through locally domiciled insurance companies based around the world, which provide mostly personal insurance products and services. The second approach is through Liberty International Underwriters (LIU), which provides specialty commercial lines of insurance worldwide, including casualty, specialty casualty, marine energy, engineering and reinsurance. International's local business consists of local insurance operations selling traditional property, casualty and life insurance products to individuals and businesses in countries with a large and growing middle class. LIU is composed of global specialty commercial insurance and reinsurance with operations principally based in Australia, Canada, England, Europe, France, Germany, Ireland, the Middle East, Southeast Asia and the United States. LIU operations provide multi-line insurance and reinsurance, including property catastrophe reinsurance and specialty lines products providing first- and third-party coverage. International's six major business lines are : 1) Local business (personal and small commercial insurance); 2) LIU reinsurance (multi-line insurance and reinsurance with an emphasis on property, treaty casualty, personal accident, aviation and reinsurance); 3) LIU inland marine program (cell phone replacement coverage for lost or damaged devices); 4: LIU first party (marine, energy, engineering, aviation, and property); 5) LIU third party (casualty, excess casualty, directors and officers, errors and omissions, and professional liability; 6) LIU other (workers' compensation, commercial automobile, and residual value).

Management's strategic objectives remain focused on improving Liberty Mutual's financial performance through product, geographic and distribution channel diversification, while maintaining a sustainable competitive advantage in its core business operations. As part of this strategy, management has identified key elements integral to achieving these objectives: 1) reduce business risk, 2) diversify earnings and 3) improve operating leverage. Within its Personal Markets operation, the company seeks a more geographically dispersed book of business. The Commercial Markets operation, where Liberty Mutual has historically been a large risk provider, offers unbundled loss services. Commercial Markets also has initiated and expanded managed-care operations, as well as restructured its claims operation away from a functional approach to a service team approach, to hold down loss costs. Additionally, Commercial Markets has reduced its exposure to large property risks while closely managing geographic risk. The Agency Markets SBU allows Liberty to further spread its exposure within the commercial markets while diversifying earnings. Liberty has been successful in further diversifying its operations through the formation of new companies, establishing new business alliances as well as pursuing mergers and acquisitions, both domestic and international.

In September 2001, the group announced the acquisition of OneBeacon Insurance Group's independent agency business outside of New York, New Jersey, and New England, which was designed to transfer OneBeacon's property and casualty business in 42 states and the District of Columbia - approximately $1.0 billion book of personal and commercial accounts - to Liberty Mutual. Product diversification has also been evidenced by Liberty's heightened emphasis in personal lines and continued diversification away from its dependence on workers' compensation. In furthering this strategy, in May 2003, Liberty announced the acquisition of Prudential Financial's U.S. property/casualty operations in 47 states, excluding New Jersey, specialty auto and affinity business, which gives the group access to a $1.1 billion book of personal auto and homeowners renewals. During 2004, Liberty sold its Canadian personal lines business consisting of private passenger automobile, homeowners and personal property insurance, to Meloche Monnex, Inc., a member of TD Bank Financial Group. The transaction included the transfer of approximately 350,000 automobile and homeowners insurance policies to Meloche Monnex.

During August 2007, Liberty Mutual finalized the acquisition of Ohio Casualty Corporation. With the acquisition of Ohio Casualty, Liberty Mutual purchased a solid book of business, which has produced strong underwriting results as a regional provider of property/casualty insurance products predominantly within the midwestern and mid-atlantic states. The acquisition improves Liberty Mutual's independent agency-distributed personal lines scale and provides a complementary geographic footprint to its existing business.

2007 BUSINESS PRODUCTION AND PROFITABILITY ($000)

Product Line	Premiums Written Direct	Premiums Written Net	% of Total NPW	Pure Loss Ratio	Loss & LAE Reserves
Workers' Comp	247,987	3,082,680	32.1	73.7	8,346,275
Priv Pass Auto Liab	291,108	1,783,063	18.6	58.5	1,692,910
Homeowners	15,284	1,309,462	13.7	52.1	394,602
Auto Physical	190,886	602,833	6.3	55.9	44,517
Oth Liab Occur	279,136	593,007	6.2	92.1	2,160,012
Inland Marine	928,902	506,881	5.3	63.0	86,504
Comm'l Auto Liab	99,811	387,928	4.0	66.0	598,828
Fire	13,469	245,173	2.6	43.6	63,224
Surety	277,852	235,686	2.5	17.7	103,636
Com'l MultiPeril	115,300	190,915	2.0	21.3	273,581
Oth Liab Cl-Made	194,374	148,658	1.6	56.7	338,471
Aircraft	104,594	58,324	0.6	52.8	62,011
All Other	120,314	444,582	4.6	46.4	1,002,847
Totals	2,879,017	9,589,191	100.0	62.3	15,167,418

Major 2007 Direct Premium Writings By State ($000): Massachusetts, $377,791 (13.1%); California, $288,849 (10.0%); New York, $249,862 (8.7%); Texas, $200,883 (7.0%); Florida, $199,586 (6.9%); 49 other jurisdictions, $1,254,969 (43.6%);

Canada, $172,573 (6.0%); Aggregate Alien, $134,505 (4.7%).

FINANCIAL PERFORMANCE

The following text is derived from the report of Liberty Mutual Insurance Companies.

Overall Earnings: Liberty's overall earnings have improved over the recent five year period, although continue to be dampened by adjustments to prior accident year reserves, specifically workers compensation, and to a lesser extent, additional funding for potential asbestos and environmental (A&E) exposures. The level of reported adverse development has diminished in recent years reflective of earlier initiatives to strengthen reserves and improved pricing. Overall earnings have been enhanced by increasing levels of investment income derived from strong cash flows and improved underwriting results relative to earlier years, while on a total return basis, earnings benefited from realized capital gains. Furthermore, Liberty's multiple distribution channels including its captive sales force, and extensive service capability provide the group with significant operating flexibility relative to other insurers. While near term earnings are dependent on management's ability to maintain prudent underwriting and pricing standards amidst softening market conditions, Liberty's diversification initiatives within its international and domestic operations should enhance the group's overall earnings performance.

PROFITABILITY ANALYSIS

	Company				Industry Composite			
Period Ending	Pretax ROR (%)	Return on PHS(%)	Comb. Ratio	Oper. Ratio	Pretax ROR (%)	Return on PHS(%)	Comb. Ratio	Oper. Ratio
2003	0.6	13.1	108.7	95.4	5.2	12.9	104.0	92.0
2004	-0.3	8.8	107.2	97.5	7.0	12.3	103.0	91.9
2005	4.0	4.4	107.3	94.3	9.5	9.1	103.2	89.9
2006	15.9	12.5	102.5	82.0	19.4	19.1	93.0	79.5
2007	5.1	8.8	104.3	91.8	20.3	15.0	94.1	79.2
5-Yr Avg	5.5	9.3	105.7	91.8	12.6	14.0	99.2	86.2
09/2007	2.5	XX	104.3	94.1	XX	XX	XX	XX
09/2008	12.2	XX	106.9	85.7	XX	XX	XX	XX

Underwriting Income: Liberty's global diversification strategy which began in the early 1990s has expanded its revenue streams across lines of business while reducing dependence on any single product line, distribution channel or geographic region. As a result, Liberty's mix of business has shifted towards personal lines, the independent agency channel, and international personal and small commercial business policies in targeted countries with an emerging middle class. The historically dominant workers' compensation line has benefited from improved pricing, moderating loss trends and a shift toward large-dollar deductible policies in recent years which beneficially impacted Liberty's underwriting results. In addition, Liberty implemented a dedicated claims unit, enhanced its mass marketing program, and developed a system and infrastructure to handle direct-response marketing. The addition of the business from OneBeacon Insurance Group in 2001, Prudential Financial in 2003 and Ohio Casualty in 2007 provide additional diversification, both geographic and by line of business, to Liberty's operations. Complementing this effort has been management's plan in the commercial markets to reduce risk through significant emphasis on enterprise risk management and loss control, broadening its fee-based products and pricing, expansion of unbundled service and managed care operations, while restructuring the claims operation in recent years to hold down loss costs.

These actions combined with expense control initiatives and focus on reducing exposures through appropriate changes to pricing, terms and limits, have resulted in improved underwriting performance relative to earlier years. The application of Liberty's multivariate pricing model should provide management the ability to lessen the impact of changing market cycles on results.

While significant reserve charges for workers' compensation and asbestos and environmental claims hampered Liberty's combined ratio in earlier years, the combined ratio has declined slightly through the five year period yet remains slightly elevated in relation to the peer composite. While the group's average pure loss ratio closely approximated the commercial casualty composite in the most recent years, the measure slightly exceeds the composite when viewed over the five-year period.

The underwriting expense ratio slightly outperforms the peer group during this time while policyholder dividends have increase slightly in recent years.

UNDERWRITING EXPERIENCE

	Net Undrw	Loss Ratios			Expense Ratios				
	Income	Pure		Loss &	Net	Other	Total	Div.	Comb
Year	($000)	Loss	LAE	LAE	Comm	Exp.	Exp.	Pol.	Ratio
2003	-551,226	66.4	19.1	85.5	-0.1	23.3	23.2	0.0	108.7
2004	-523,326	66.5	16.3	82.8	0.9	23.1	24.0	0.4	107.2
2005	-544,037	63.8	18.8	82.6	2.4	22.0	24.4	0.3	107.3
2006	-273,534	61.1	15.3	76.4	2.8	22.9	25.7	0.4	102.5
2007	-549,268	61.9	15.9	77.8	1.5	24.4	25.9	0.6	104.3
5-Yr Avg	…	63.6	16.9	80.6	1.6	23.2	24.8	0.4	105.7
09/2007	-469,100	61.4	17.2	78.5	XX	XX	25.3	0.4	104.3
09/2008	-485,580	69.3	15.8	85.1	XX	XX	21.5	0.2	106.9

Investment Income: Liberty's investment strategy remains committed to maximizing long-term returns through a diversified portfolio of high-quality investments. Through 2004, net investment income declined slightly as modest diversification strategies were offset by growth in the invested asset base, interest expense on surplus notes, and investments in unconsolidated subsidiaries. Growth in investment income in recent years reflects higher interest income due to growth in the invested asset base driven by strong cash flow from operations and the proceeds received from the group's recent debt offerings. The group also reported an increase in investment income related to limited partnerships, limited liability companies, and commercial mortgage loans given the increased investment in those asset classes consistent with its diversification strategy. In 2007, interest income also increased slightly as a result of assets assumed from Ohio Casualty. The increase in year-to-date dividend income also reflects the increased investment in equity securities. While investment income growth was somewhat hindered by the reduced yield available on the fixed maturity portfolio due primarily to the increased investment in tax-exempt securities, the group's overall investment yield compares favorably with the peer composite. Liberty's investment portfolio is primarily comprised of high-quality fixed income securities with an average maturity of less than ten years. Best anticipates solid investment income in the near term as improved profitability should contribute to additional growth in the invested asset base.

INVESTMENT INCOME ANALYSIS ($000)

	Company		
	Net	Realized	Unrealized
	Inv	Capital	Capital
Year	Income	Gains	Gains
2003	734,894	49,150	568,313
2004	622,787	199,730	373,180
2005	895,504	197,387	-253,468
2006	1,551,031	87,553	106,820
2007	1,120,269	130,466	514,906
09/2007	687,683	99,569	425,225
09/2008	1,344,598	-26,998	-4,388,183

	Company			Industry Composite	
Year	Inv Inc Growth (%)	Inv Yield (%)	Total Return (%)	Inv Inc Growth (%)	Inv Yield (%)
2003	3.0	4.7	8.8	5.9	4.9
2004	-15.3	3.4	6.6	2.0	4.4
2005	43.8	4.4	4.1	20.9	4.8
2006	73.2	6.9	7.8	6.4	4.6
2007	-27.8	4.2	6.7	11.3	4.7
5-Yr Avg	9.0	4.7	6.7	9.4	4.7
09/2007	XX	XX	4.6	XX	XX
09/2008	XX	XX	-10.3	XX	XX

INVESTMENT PORTFOLIO ALGYSIS

Asset Class	2007 Inv Assets ($000)	% of Invested Assets 2007	% of Invested Assets 2006	Annual % Chg
Long-Term bonds	15,335,084	51.9	57.2	7.0
Stocks	2,000,065	6.8	6.9	15.9
Affiliated Investments	9,513,807	32.2	25.8	47.1
Other Inv Assets	2,694,641	9.1	10.2	5.5
Total	29,543,597	100.0	100.0	17.8

2007 BOND PORTFOLIO ANALYSIS

Asset Class	% of Total Bonds	Mkt Val to Stmt Val(%)	Avg. Maturity (Yrs)	Class 1 - 2 (%)	Class 3 - 6 (%)	Struc. Secur. (%)	Struc. Secur. (% of PHS)
Governments	14.9	1.8	6.9	100.0	…	…	…
States, terr & poss	50.4	0.2	12.0	100.0	…	18.7	12.7
Corporates	34.8	-0.6	8.2	81.5	18.5	14.3	6.7
Total all bonds	100.0	0.2	9.9	93.6	6.4	14.4	19.4

CAPITALIZATION

The following text is derived from the report of Liberty Mutual Insurance Companies.

Capital Generation: The group reported strong growth in policyholder surplus during the recent five-year period reflective of improved underwriting performance, increasing levels of investment income and capital contributions from the parent, Liberty Mutual Group, Inc. (LMGI). During March 2005 and August 2006, LMGI raised an additional $500 million of new debt, and $750 million of new debt, respectively, and contributed the entire proceeds to the insurance subsidiaries. During March 2007, LMGI raised an additional $1 billion of new debt, the proceeds of which were utilized to strengthen overall capitalization of the insurance subsidiaries, as well as for general corporate purposes. Given the group's business plan, modest growth expectations and cycle management initiatives intended to sustain the improvement in operational performance, A.M. Best believes the group will organically generate surplus growth in the near term despite continued softening market conditions.

CAPITAL GENERATION ANALYSIS ($000)

	Source of Surplus Growth		
Year	Pretax Operating Income	Total Inv. Gains	Net Contrib. Capital
2003	34,358	617,463	1,348,912
2004	-21,182	572,910	445,938
2005	272,659	-56,081	165,861
2006	1,198,822	194,373	876,423
2007	458,824	645,372	1,075,175
5-Yr Total	1,943,481	1,974,037	3,912,308
09/2007	169,686	524,794	825,159
09/2008	775,426	-4,415,180	1,160,144

	Source of Surplus Growth		
Year	Other, Net of Tax	Change in PHS	PHS Growth (%)
2003	114,612	2,115,345	52.8
2004	134,590	1,132,256	18.5
2005	286,909	669,347	9.2
2006	-242,185	2,027,432	25.6
2007	-308,200	1,871,171	18.8
5-Yr Total	-14,275	7,815,551	…
09/2007	-137,364	1,382,275	13.9
09/2008	-30,627	-2,510,237	-21.2

Overall Capitalization: Liberty maintains an excellent level of capitalization as measured by Best's Capital Adequacy Ratio (BCAR) which supports the current financial strength rating. Leverage measures declined during the five-year period and closely approximate other predominantly commercial lines carriers as growth in net premium volume moderated while surplus increased. Also considered within A.M. Best's view of capitalization is the equity built into Liberty's large unearned premium reserve.

QUALITY OF SURPLUS ($000)

		% of PHS			Dividend Requirements		
Year	Year-End PHS	Cap Stk/ Contrib. Cap.	Other	Un-assigned Surplus	Stock-holder Divs	Div to POI (%)	Div to Net Inc. (%)
2003	6,123,094	23.5	30.1	46.3	…	…	…
2004	7,255,350	27.8	24.4	47.8	…	…	…
2005	7,924,697	28.8	22.7	48.6	-100,000	36.7	17.1
2006	9,952,129	31.7	18.3	49.9	-2,164	0.2	0.2
2007	11,823,300	36.9	15.6	47.6	-4,373	1.0	1.0
09/2007	11,334,404	36.3	16.3	47.4	-4,373	2.6	3.1
09/2008	9,313,063	59.3	19.9	20.8	…	…	…

Underwriting Leverage: Underwriting leverage measures declined steadily through 2007 reflective of strong growth in policyholder surplus achieved through strong pretax operating profitability in combination with capital raising initiatives from the parent which outpaced growth in premium volume during the recent five year period. Given the steady improvement in underwriting leverage throughout the period, the measures closely approximate the industry composite through year end 2007.

LEVERAGE ANALYSIS

	Company				Industry Composite			
Year	NPW to PHS	Reserves to PHS	Net Lev	Gross Lev	NPW to PHS	Reserves to PHS	Net Lev	Gross Lev
2003	1.0	1.6	3.5	4.8	1.3	1.9	4.3	6.0
2004	0.9	1.5	3.2	4.4	1.2	1.9	4.2	5.6
2005	0.9	1.4	3.2	4.3	1.1	1.8	3.9	5.3
2006	0.8	1.2	2.8	3.6	1.0	1.6	3.5	4.6
2007	0.8	1.3	2.7	3.5	0.9	1.5	3.2	4.1
09/2007	0.8	1.3	2.9	XX	XX	XX	XX	XX
09/2008	0.9	1.6	3.4	XX	XX	XX	XX	XX

Current BCAR: 188.2

PREMIUM COMPOSITION & GROWTH ANALYSIS

Period	DPW		GPW	
Ending	($000)	(% Chg)	($000)	(% Chg)
2003	2,449,520	3.8	12,052,531	13.8
2004	2,115,728	-13.6	12,897,807	7.0
2005	2,147,825	1.5	13,069,774	1.3
2006	2,457,476	14.4	14,623,278	11.9
2007	2,879,017	17.2	15,337,463	4.9
5-Yr CAGR	…	4.0	…	7.7
5-Yr Change	…	21.9	…	44.9
09/2007	2,063,095	13.2	11,779,438	5.7
09/2008	2,600,612	26.1	11,874,428	0.8

Period	NPW		NPE	
Ending	($000)	(% Chg)	($000)	(% Chg)
2003	5,837,881	10.1	5,535,599	11.0
2004	6,698,479	14.7	6,451,473	16.5
2005	7,046,397	5.2	6,889,135	6.8
2006	7,889,647	12.0	7,561,990	9.8
2007	9,589,191	21.5	8,956,741	18.4
5-Yr CAGR	…	12.6	…	12.4
5-Yr Change	…	80.8	…	79.6
09/2007	7,506,872	23.8	6,797,915	21.9
09/2008	6,556,701	-12.7	6,332,674	-6.8

Reserve Quality: Liberty reported significant adverse development in accident years 1997 through 2000 largely related to deterioration in commercial lines business, including commercial automobile and workers' compensation. Accident year loss reserves for accident years 2002-2006, while relatively immature, have developed favorably to date reflective of improved pricing in combination with Liberty's price monitoring initiatives.

Viewed on a calendar year basis, Liberty has reported a steady decline in the amount of adverse calendar year development since 2000 with favorable development reported during the most recent calendar year. Calendar year results in 2007 indicate slight adverse development attributable to workers' compensation reserves in older accident years. Liberty does not discount loss reserves other than the tabular discount on the long-term annuity portion of certain workers' compensation claims at a conservative rate of 4% and the long-term disability portion of some group accident and health claims at Commissioner Group Disability Table discount rates ranging from 5.0% to 5.75%. Total statutory discount on Liberty's balance sheet was approximately $1.4 billion at year-end 2007.

Liberty's potential A&E liability primarily stems from its pre-1986 commercial liability policies, historically written on a primary level with some low levels of excess. After significant reserve charges occurring annually during the 2001 through 2005 period, Liberty's three-year survival ratio has improved. The measure improves further when adjusted for buyouts, structured settlements and commutations in place, however, still trails the A.M. Best benchmark composite. In recent years, aggressive litigation and resolution strategies, combined with its role as a primary carrier, have played a major role in contributing to Liberty's higher than average paid loss activity. Liberty recently completed a biennial account level study of its asbestos exposure which indicated a required reserve increase of $95 million, from $848 million to $943 million at 6/30/07. Despite the increase in asbestos reserves, the study indicated that non-malignancy claim counts have decreased rapidly in recent years, while the number of newly identified defendants has declined as well. Since 1993, Liberty has centralized all environmental staff into a dedicated department comprised of environmental specialists including claims, legal, systems, reinsurance and consulting to handle A&E claims and litigation.

LOSS & ALAE RESERVE DEVELOPMENT: CALENDAR YEAR ($000)

Calendar Year	Original Loss Reserves	Developed Reserves Thru 2007	Develop. to Orig.(%)	Develop. to PHS (%)	Develop. to NPE (%)	Unpaid Reserves @12/2007	Unpaid Resrv. to Dev.(%)
2002	12,197,461	15,382,406	26.1	79.5	225.7	6,064,220	39.4
2003	12,515,088	14,895,004	19.0	38.9	205.9	6,771,995	45.5
2004	12,625,548	14,269,176	13.0	22.7	193.8	7,840,856	54.9
2005	13,514,201	14,370,664	6.3	10.8	182.8	9,288,452	64.6
2006	14,485,177	14,722,308	1.6	2.4	170.6	11,614,545	78.9
2007	15,585,925	15,585,925	…	…	174.0	15,585,925	100.0

LOSS & ALAE RESERVE DEVELOPMENT: ACCIDENT YEAR ($000)

Accident Year	Original Loss Reserves	Developed Reserves Thru 2007	Develop. to Orig.(%)	Unpaid Reserves @12/2007	Acc Yr. Loss Ratio	Acc Yr. Comb Ratio
2002	2,712,489	2,719,750	0.3	312,081	78.8	101.8
2003	3,084,913	2,776,639	-10.0	707,775	73.4	96.5
2004	3,264,075	2,788,980	-14.6	1,068,861	69.8	94.2
2005	3,434,220	3,035,371	-11.6	1,447,596	71.3	96.1
2006	3,620,666	3,376,430	-6.7	2,326,093	68.6	94.7
2007	3,971,380	3,971,380	…	3,971,380	73.9	100.5

ASBESTOS & ENVIRONMENTAL (A&E) RESERVES ANALYSIS

	Company		
Year	Net A&E Reserves ($000)	Reserve Retention (%)	Net IBNR Mix (%)
2003	1,049,186	62.3	47.2
2004	1,121,940	49.7	48.3
2005	1,115,106	45.2	48.9
2006	980,923	43.9	49.0
2007	881,177	40.3	52.0

	Company			Industry Composite		
Year	Survival Ratio (3 yr)	Comb Ratio Impact (1 yr)	Comb Ratio Impact (3 yr)	Survival Ratio (3 yr)	Comb Ratio Impact (1 yr)	Comb Ratio Impact (3 yr)
2003	…	4.2	…	…	1.9	…
2004	…	3.8	…	…	1.4	…
2005	6.9	2.4	3.4	8.5	1.0	1.4
2006	5.9	0.3	2.1	7.9	0.5	0.9
2007	5.2	0.8	1.1	8.6	0.7	0.7

Reinsurance Utilization: Ceded reinsurance leverage has declined in recent years to a level which approximates the composite average. This is further tempered by recoverables associated with mandatory pools and associations, including its risk-free servicing carrier business.

Given Liberty's large workers' compensation book and the generally favorable geographic orientation of its personal lines, the group's catastrophic losses have historically been less severe than its national competitors. In addition, Liberty maintains traditional excess of loss catastrophe reinsurance intended to provide coverage for severe catastrophic events, with less severe losses funded by earnings. Catastrophe reinsurance arrangements also provide for catastrophic losses, including losses related to terrorism, stemming from the group's sizable workers' compensation book. CAT bonds issued during 2006 provide the group with a source of coverage for hurricane losses within the Northeast area on a per occurrence basis over a three year period.

CEDED REINSURANCE ANALYSIS ($000)

	Company				Industry Composite		
Year	Ceded Reins Total	Business Retention (%)	Rein Rec to PHS (%)	Ceded Reins to PHS (%)	Business Retention (%)	Rein Rec to PHS (%)	Ceded Reins to PHS(%)
2003	7,498,596	72.3	76.5	122.5	72.4	121.3	173.3
2004	8,486,633	75.8	76.2	117.0	76.3	107.3	147.3
2005	8,842,878	76.9	80.7	111.6	76.8	104.3	138.8
2006	8,627,044	78.5	59.5	86.7	76.7	80.9	110.0
2007	8,722,373	81.6	47.1	73.8	78.0	69.2	95.3

2007 REINSURANCE RECOVERABLES ($000)

	Paid & Unpaid Losses	IBNR	Unearned Premiums	Other Recov*	Total Reins Recov
US Affiliates	2,512,942	2,331,058	1,188,356	30,534	6,062,890
Foreign Affiliates	37,130	100,813	26,043	-103,949	60,037
US Insurers	925,599	1,205,802	226,863	-1,328,506	1,029,758
Pools/Associations	1,585,814	957,758	251,627	-1,420	2,793,779
Other Non-US	821,447	1,062,761	244,118	-443,810	1,684,516
Total (ex US Affils)	3,369,990	3,327,134	748,651	-1,877,685	5,568,090
Grand Total	5,882,932	5,658,192	1,937,007	-1,847,151	11,630,980

* Includes Commissions less Funds Withheld

Investment Leverage: Liberty maintains a relatively conservative investment portfolio with approximately 80% invested in fixed income securities. In recent years, the level of corporate bond holdings as a percentage of total bonds has declined, while the group increased its holdings in U.S. Treasuries and municipal bonds. Non-investment grade bonds, although declining from levels reported in earlier years, represent a greater proportion of surplus than the commercial casualty composite average. The group has a moderate amount of affiliated stacking, primarily relating to its diversification into international markets, life and other financial services companies, as well as other businesses complementing its domestic property/casualty operations. Affiliated investment leverage has increased in recent years reflective of the investment associated with establishing a presence in global markets which the group has identified for expansion. Common stock leverage has declined in recent years to a level that compares favorably with its peer composite.

INVESTMENT LEVERAGE ANALYSIS (% OF PHS)

	Company						Industry Composite	
Year	Class 3-6 Bonds	Real Estate/ Mtg.	Other Invested Assets	Common Stocks	Non-Affl Inv. Lev.	Affil Inv.	Class 3-6 Bonds	Common Stocks
2003	13.8	0.0	8.0	16.8	38.5	79.8	8.4	19.2
2004	13.0	0.0	7.9	17.6	38.6	76.3	6.8	19.7
2005	12.6	0.0	8.6	15.0	36.2	74.4	6.9	18.7
2006	9.0	2.1	9.3	15.0	35.4	65.0	6.0	18.5
2007	8.7	3.6	10.6	14.2	37.0	80.5	5.7	17.5

LIQUIDITY

The following text is derived from the report of Liberty Mutual Insurance Companies.

Overall Liquidity: The group maintains a sound overall liquidity position as total admitted assets exceed overall liabilities by a comfortable margin. Although the measure has improved during the five-year period, overall liquidity narrowly trails the peer composite. Given extraordinary long-term receivables associated with its large commercial accounts business, Liberty's liquidity appears modest. However, most of the insurance contracts related to these receivables are retrospectively rated and are collateralized by letters of credit or other security which enhances overall liquidity. Underwriting cash flows have been stronger in recent years reflective of an increase in premium volume and improved underwriting performance. Operating cash flows have been strong during the recent five-year period reflective of the improved underwriting results combined with solid investment income. Given the focused underwriting initiatives, A.M. Best anticipates cash flow measures should remain strong in the near term.

LIQUIDITY ANALYSIS

	Company				Industry Composite			
Year	Quick Liq (%)	Current Liq (%)	Overall Liq (%)	Gross Agents Bal to PHS(%)	Quick Liq (%)	Current Liq (%)	Overall Liq (%)	Gros Agents Ba to PHS(%
2003	14.9	77.7	139.5	11.0	26.3	102.4	134.7	14.
2004	17.9	88.1	144.6	8.4	24.0	104.4	135.3	14.
2005	21.5	87.9	145.0	8.0	22.2	106.9	136.8	13.
2006	24.4	94.7	150.7	7.1	23.8	113.5	141.0	11.
2007	16.0	86.6	152.2	7.9	22.6	116.1	143.8	10.
09/2007	XX	84.2	148.2	7.6	XX	XX	XX	X
09/2008	XX	65.0	141.4	8.4	XX	XX	XX	X

CASH FLOW ANALYSIS ($000)

	Company					Industry Composite	
Year	Underw Cash Flow	Oper Cash Flow	Net Cash Flow	Underw Cash Flow (%)	Oper Cash Flow (%)	Underw Cash Flow (%)	Oper Cash Flow (%)
2003	221,168	1,243,812	-682,248	104.0	122.4	113.3	123.7
2004	59,602	1,303,926	261,226	100.9	120.4	128.7	137.2
2005	409,130	1,596,160	397,729	106.2	124.1	116.6	127.0
2006	710,299	1,737,943	125,493	109.8	123.2	117.0	127.3
2007	2,775,257	3,685,921	-379,546	143.0	154.4	117.1	125.6
09/2007	2,558,796	3,245,205	-12,972	156.8	168.1	XX	XX
09/2008	-531,540	790,367	-43,821	92.3	111.4	XX	XX

HISTORY

Liberty Mutual Insurance Company was incorporated under the laws of Massachusetts January 1, 1912 and began business July 1, 1912. The sponsors were leading manufacturers desiring to provide workers' compensation insurance at cost. The company was especially incorporated as a part of the Workmen's Compensation Act of Massachusetts, under the name of the Massachusetts Employees Insurance Association. The present title was adopted August 15, 1917.

At a Special Meeting on November 9, 2001, policyholders voted in favor of a plan to reorganize Liberty Mutual Insurance Company into a mutual holding company structure. The Massachusetts Insurance Commissioner approved the plan on November 27, 2001, and on November 28, 2001, Liberty Mutual Insurance Company reorganized to a stock insurance company, indirectly owned by its newly formed parent Liberty Mutual Holding Company Inc. This was the first step in a series of transactions designed to bring two of Liberty Mutual Insurance Company's affiliates, namely, Liberty Mutual Fire Insurance Company and Employers Insurance Company of Wausau, under a single mutual holding company structure. These transactions were completed in the first quarter of 2002.

MANAGEMENT

Liberty Mutual Insurance Company is guided by experienced insurance executives, the majority of whom have spent the greater portion of their business careers with the Liberty Mutual Group.

Advisory boards, maintained to represent the interests of local commercial markets policyholders in various parts of the country, are located in 30 principal cities of the 10 territorial divisions into which the field operations are divided.

An overseas affiliate, Liberty Mutual Insurance Company (U.K.) Limited, London, England, was formed in late 1972 by Liberty Mutual Insruance Company and the Liberty Mutual Fire Insurance Company, which own 98.5% and 1.5%, respectively, of the outstanding capital stock. The British insurer was organized to write all property and casualty lines of insurance and reinsurance in the European market, representing a continuation and extension of the reinsurance activities previously conducted directly by Liberty Mutual. More recently established affiliates include: Liberty Mutual (Bermuda) Ltd. and Liberty Mutual Management (Bermuda) Ltd., incorporated in 1981; Liberty Insurance Corporation and Liberty Northwest Insurance Corporation, incorporated in 1983; Lexco Limited (Bermuda), formed in 1986; LM Insurance Corporation and The First Liberty Insurance Corporation, incorporated in 1989; Liberty Insurance Company of America formed in 1995; Liberty Surplus Insurance Corporation formed in 1997; and Golden Eagle Insurance Corporation and San Diego Insurance Company formed in 1997.

Officers: Chairman of the Board, President and Chief Executive Officer, Edmund F. Kelly; Executive Vice President and Chief Investment Officer, A. Alexander Fontanes; Executive Vice Presidents, J. Paul Condrin III, Gary R. Gregg, David H. Long, Thomas C. Ramey; Senior Vice President and Chief Financial Officer, Dennis J. Langwell; Senior Vice President and Chief Information Officer, Stuart M. McGuigan; Senior Vice President and Treasurer, Laurance H. Soyer Yahia; Senior Vice President and General Counsel, Christopher C. Mansfield; Senior Vice Presidents, Helen E.R. Sayles, Stephen G. Sullivan; Vice President and Secretary, Dexter R. Legg; Vice President and Actuary, Robert T. Muleski; Vice President and Comptroller, John D. Doyle.

Directors: J. Paul Condrin III, A. Alexander Fontanes, Edmund F. Kelly (Chairman), Dennis J. Langwell, David H. Long, Christopher C. Mansfield, Thomas C. Ramey.

REGULATORY

An examination of the financial condition was made as of December 31, 2004 by the Insurance Department of Massachusetts. The 2007 annual independent audit of the company was conducted by Ernst & Young, LLP. The annual statement of actuarial opinion is provided by Robert T. Muleski, FCAS, MAAA, Vice President and Corporate Actuary.

TERRITORY

The company is licensed in the District of Columbia, Puerto Rico, U.S. Virgin Islands and all states. It is also licensed in all Canadian provinces and territories.

REINSURANCE PROGRAMS

The following text is derived from the report of Liberty Mutual Insurance Companies.

Liberty Mutual's Corporate Workers Compensation Catastrophe Excess of Loss Program was restructured at January 1, 2007. Liberty externally purchased coverage for both Terror and Non-Terror events for $700 million excess $500 million. The maximum any one life limitation is $19 million. Losses from certified and on-certified acts of terrorism are covered. Losses due to nuclear, biological and chemical events are excluded. Liberty Mutual's Corporate Property Catastrophe Excess of Loss Program was also redesigned at January 1, 2007 into a traditional per occurrence program augmented by additional coverage triggered by significant industry events. The amount of coverage varies geographically by additional coverage triggered by significant industry events. The amount of coverage varies geographically to protect Liberty's zonal aggregates. Some of this new captivity is fully collateralized by proceeds from the issuance of catastrophe bonds and provide for hurricane-related losses from Washington D.C. to Maine based on insured losses. The entry and exit points of the Corporate Property Catastrophe Program are $1,100 million and $3,000 million as compared to 2006 entry and exit points of $300 million and $1,700 million with respect to the group's capital position. With respect to Terrorism, only certified events are excluded. Losses due nuclear, biological, chemical or radiological events are excluded.

BALANCE SHEET ($000)

ADMITTED ASSETS	12/31/2007	12/31/2006	2007 %	2006 %
Bonds	15,335,084	14,335,788	44.0	47.9
Preferred stock	322,856	234,178	0.9	0.8
Common stock	1,677,209	1,491,672	4.8	5.0
Cash & short-term invest	828,120	1,207,666	2.4	4.0
Real estate, investment	1,070	1,111	0.0	0.0
Other non-affil inv asset	1,690,170	1,175,578	4.9	3.9
Investments in affiliates	9,095,246	6,140,176	26.1	20.5
Real estate, offices	418,561	326,163	1.2	1.1
Total invested assets	29,368,315	24,912,332	84.3	83.3
Premium balances	2,954,362	2,628,086	8.5	8.8
Accrued interest	175,281	168,972	0.5	0.6
All other assets	2,331,246	2,210,622	6.7	7.4
Total assets	34,829,205	29,920,012	100.0	100.0

LIABILITIES & SURPLUS	12/31/2007	12/31/2006	2007 %	2006 %
Loss & LAE reserves	15,167,418	12,254,053	43.5	41.0
Unearned premiums	3,678,689	3,114,706	10.6	10.4
Conditional reserve funds	116,581	120,073	0.3	0.4
All other liabilities	4,043,216	4,479,051	11.6	15.0
Total liabilities	23,005,905	19,967,883	66.1	66.7
Surplus notes	891,966	1,013,209	2.6	3.4
Capital & assigned surplus	5,309,077	3,970,546	15.2	13.3
Unassigned surplus	5,622,257	4,968,374	16.1	16.6
Total policyholders' surplus	11,823,300	9,952,129	33.9	33.3
Total liabilities & surplus	34,829,205	29,920,012	100.0	100.0

SUMMARY OF 2007 OPERATIONS ($000)

STATEMENT OF INCOME	12/31/2007
Premiums earned	8,956,741
Losses incurred	5,546,959
LAE incurred	1,420,100
Undrw expenses incurred	2,485,993
Div to policyholders	52,957
Net underwriting income	-549,268
Net investment income	1,120,269
Other income/expense	-112,177
Pre-tax oper income	458,824
Realized capital gains	130,466
Income taxes incurred	148,786
Net income	440,504

FUNDS PROVIDED FROM OPERATIONS	12/31/2007
Premiums collected	9,223,322
Benefit & loss related pmts	3,081,819
LAE & undrw expenses paid	3,322,091
Div to policyholders	44,155
Undrw cash flow	2,775,257
Investment income	1,210,416
Other income/expense	23,906
Pre-tax cash operations	4,009,580
Income taxes pd (recov)	323,659
Net oper cash flow	3,685,921

INTERIM BALANCE SHEET ($000)

ADMITTED ASSETS	03/31/2008	06/30/2008	09/30/2008
Cash & short term invest	1,508,194	5,318,620	784,298
Bonds	15,239,519	12,516,197	11,196,475
Preferred stock	286,872	281,832	175,174
Common stock	7,266,164	6,534,383	8,679,401
Other investments	5,791,994	6,236,468	5,833,990
Total investments	30,092,743	30,887,499	26,669,337
Premium balances	3,339,946	3,078,417	3,012,781
Reinsurance funds	1,037,152	679,358	675,942
Accrued interest	169,590	591,984	138,517
All other assets	2,181,557	1,624,480	1,716,892
Total assets	36,820,987	36,861,739	32,213,469

LIABILITIES & SURPLUS	03/31/2008	06/30/2008	09/30/2008
Loss & LAE reserves	14,512,375	14,796,893	15,197,025
Unearned premiums	3,720,052	3,790,611	3,859,687
Conditional reserve funds	117,311	118,757	113,113
All other liabilities	6,677,041	5,154,875	3,730,581
Total liabilities	25,026,779	23,861,136	22,900,407
Capital & assigned surp	6,203,649	7,363,739	7,371,892
Unassigned surplus	5,590,559	5,636,864	1,941,170
Policyholders' surplus	11,794,208	13,000,603	9,313,063
Total liabilities & surplus	36,820,987	36,861,739	32,213,469

INTERIM INCOME STATEMENT ($000)

	Period Ended 09/30/2008	Period Ended 09/30/2007	Increase/ Decrease
Premiums earned	6,332,674	6,797,915	-465,241
Losses incurred	4,386,904	4,172,770	214,134
LAE incurred	1,002,975	1,166,723	-163,748
Underwriters expenses incurred	1,412,679	1,898,515	-485,836
Div to policyholders	15,697	29,008	-13,311
Net underwriting income	-485,580	-469,100	-16,480
Net investment income	1,344,598	687,683	656,914
Other income/expenses	-83,592	-48,898	-34,694
Pre-tax operating income	775,426	169,686	605,740
Realized capital gains	-26,998	99,569	-126,566
Income taxes incurred	71,095	125,990	-54,895
Net income	677,332	143,264	534,068

INTERIM CASH FLOW ($000)

	Period Ended 09/30/2008	Period Ended 09/30/2007	Increase/ Decrease
Premiums collected	6,390,075	7,065,970	-675,895
Benefit & loss related pmts	4,214,832	1,956,633	2,258,199
Undrw expenses paid	2,682,064	2,520,943	161,121
Div to policyholders	24,719	29,598	-4,879
Underwriting cash flow	-531,540	2,558,796	-3,090,335
Investment income	1,442,153	754,853	687,300
Other income/expense	-141,781	191,270	-333,052
Pre-tax cash operations	768,832	3,504,919	-2,736,087
Income taxes pd (recov)	-21,535	259,714	-281,248
Net oper cash flow	790,367	3,245,205	-2,454,839