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A.M. Best Affirms Ratings for Liberty Mutual Insurance Companies

Liberty Life Assurance Company of Boston – Rating Supplement

The affirmation of the financial strength rating of A (Excellent) for Liberty Life Assurance Company of Boston reflects the financial and operational support and the strong market profile of its ultimate parent, Liberty Mutual Insurance Companies, a leading property/casualty insurance company. The rating also recognizes Liberty Life's high credit quality investment portfolio, its favorable liquidity position and the capital guarantee provided by its parent. Offsetting these strengths are the poor operating returns generated by key product lines—which are below those of its peers and target levels established by Liberty Mutual—and limited growth of recurring premium life insurance. In the near-term, A.M. Best believes that Liberty Life will remain challenged in attaining profitability objectives, particularly given the competitive nature of the individual life and group disability income and life markets. Accordingly, the rating outlook is negative.

Over the past five years, Liberty Life has reported fluctuating earnings in its core lines. In recent years, operating results have been impacted by the strain associated with increased new business written in the individual life and structured settlement product lines. Liberty Life provides complementary products to Liberty Mutual's portfolio, thus providing diversification to its business lines. Group disability income earnings have been impacted by adverse loss

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experience; however, since 1998, Liberty Mutual has assumed the disability income business through reinsurance to offset underwriting deficits. Liberty Life's modest overall operating profitability, coupled with technological, personnel and product development expenditures necessary to position the company to compete effectively, has hindered the growth of risk-adjusted capitalization. However, in recent years, capital contributions and reinsurance support from Liberty Mutual as well as capital gains have resulted in capital levels, which are adequate to support the company's current insurance and investment risks.

Liberty Life maintains a high quality investment portfolio focusing on investment grade fixed-income securities. Heavily weighted toward publicly traded corporate bonds, over one-third of securities are either mortgage- or asset-backed. Liberty Life maintains an excellent liquidity position, which is supported by its favorable cash flow and investment grade bonds, cash balances and short-term securities. Additionally, the large block of structured settlement annuities provides substantial liquidity protection, allowing it to invest in longer duration bonds. Overall, the enterprise's financial flexibility is enhanced through Liberty Mutual's conversion to a mutual holding company structure.

A.M. Best Co., established in 1899, is the world's oldest and most authoritative insurance rating and information source. For more information, visit A.M. Best's Web site at www.ambest.com.

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