

2016



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In 2016, our commitment to innovation, growth and protecting our customers was on full display. In this annual review, we take a moment to reflect upon the achievements of our three strategic business units. While each has a unique story to tell, together, their expertise, efforts and vision align to strengthen our company's foundation for the future.



David H. Long
Chairman & CEO

Letter from Our CEO

In 2016, Liberty Mutual Insurance Group continued to build on our promise to be there when our customers need us most.

In this report, we share stories about how we delivered innovative tools and products, exceptional service and superior insights. You'll read about how Global Consumer Markets' suite of digital tools provides more personalized customer experiences than ever before; how Commercial Insurance is using telematics to monitor unsafe driving behaviors to improve driver performance and reduce accidents; and how Global Specialty's data-driven culture is leading to better decision making.

You'll also read about several strategic moves we made in

2016, including the merging of Personal Insurance and Liberty International to form Global Consumer Markets — a move that enables us to leverage our expertise, talent and scale in operations throughout the world. In 2016, we entered an agreement to acquire Ironshore Inc., a premier specialty lines company that complements Global Specialty's and solidifies our position as a leader in the specialty space. Commercial Insurance also entered the third phase of a multi-year transformation last year, and with its new structure, is now well positioned to invest, build and grow in the coming years.

These are just a few efforts that led to solid operating results in 2016, including growing to \$20 billion in equity and generating a core combined ratio of 93 percent, down six points from just five years ago. We grew net written premium 3.4 percent to \$35.7 billion with approximately \$1 billion of net income for the year. We achieved this despite 2016 experiencing higher than

normal catastrophe losses, unfavorable loss trends within our personal and commercial auto product lines, heightened competition and continued low interest rates.

Also impacting 2016 results were pre-tax charges of roughly \$200 million associated with realized investment losses and debt buybacks. The losses were largely related to impairments of direct investments in oil and gas wells reflecting unprecedented price declines in the energy sector of the economy. In regards to the debt buybacks, we repurchased \$125 million of our high coupon debt, which will provide significant future interest savings.

We saw notable accomplishments beyond our business operations. We climbed to #73 on the Fortune 500 list and were named a "Great Place to Work" in recognition of our ongoing commitment to create a flexible, diverse and inclusive workplace that attracts top talent. We celebrated our fifth anniversary of *Serve with Liberty* — our

employee service program — with a record 28,000-plus employees from 21 countries serving; and commemorated the 10th anniversary of *Give with Liberty* — our employee giving program — raising a record \$18.5 million to help those who need it most. I am extraordinarily proud of these efforts and the collective generosity of our employees.

There's no denying that we are at a new and exciting point in our history. The world around us and, consequently, the expectations of our customers, are changing rapidly. We face a high degree of economic and geopolitical uncertainty in markets around the world. Technology is advancing at an exponential rate, transforming the way we live and interact faster than at any point in our history. Yet, in spite of this accelerating pace of change, we continue to thrive thanks to our strong capital position, the strength of our underlying operations, our scale, our talent and our unwavering focus on customers.

In closing, I'd like to thank the Board of Directors for their guidance and expertise this past year as well as our dedicated network of distribution partners — the independent agents and brokers who bring our services to those in need.

I also thank our employees for their hard work delivering on our promise to help protect our customers. Most especially, I thank our customers and policyholders — for trusting us when it matters most.



David H. Long
Chairman & CEO

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overview

view

where we stand

Stats, progress and milestones

Boston-based Liberty Mutual Insurance Group is a diversified global insurer, the fifth-largest property and casualty (P&C) insurer in the U.S. based on 2015 direct written premium and amongst the largest P&C insurers in the world based on gross written premium. The company also ranks 73rd on the Fortune 500 list of largest corporations in the U.S. based on 2015 revenue.

Liberty Mutual Insurance Group offers a wide range of insurance products and services to meet the needs of individuals, families and businesses through three strategic business units:

Global Consumer Markets

Commercial Insurance

Global Specialty

Liberty Mutual Insurance Group's revenue in 2016 was \$38.3 billion, a 1.8 percent increase over 2015. Pre-tax operating income for 2016 was \$1.7 billion, a 16.1 percent decrease from 2015. Net income attributable to Liberty Mutual Holding Company Inc. for 2016 was \$1.0 billion, a 95.7 percent increase over 2015.

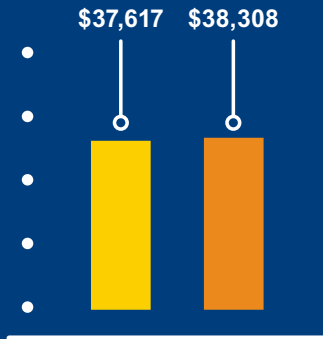


Liberty Mutual Insurance Group

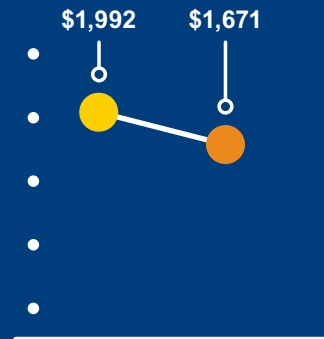
(Dollars in millions) period ending December 31

2015 ■ 2016 ■

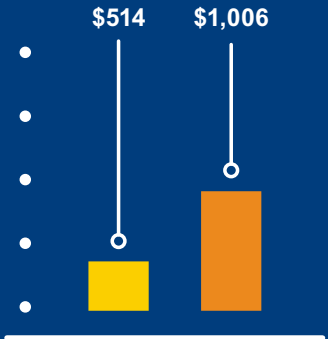
Revenues:



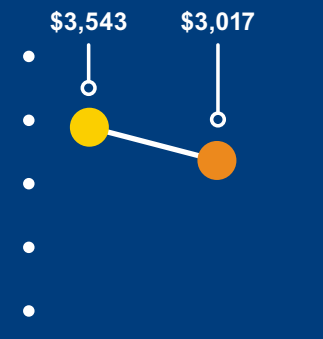
Pre-Tax Operating Income:



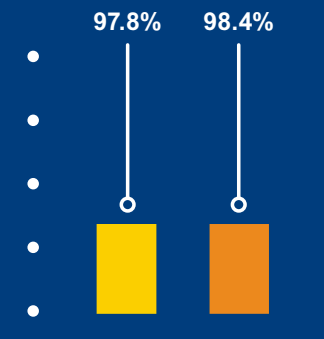
Net Income¹:



Cash Flow From Operations:



Combined Ratio:



Total Equity:



To access and download the complete financial statements, please visit:
<https://www.libertymutualgroup.com/about-lm/our-company/2016-annual-review>.

Liberty Mutual Insurance Group results include all significant business units of the Company. Each business unit is reported in accordance with U.S. Generally Accepted Accounting Principles.

¹ Net income represents net income attributable to Liberty Mutual Holding Company Inc.

² On Feb. 17, 2016, the Company announced the combination of its Personal Insurance and Liberty International strategic business units (SBUs) to form a new SBU, Global Consumer Markets. The former Personal Insurance and Liberty International SBUs, now known as U.S. Consumer Markets and Global Consumer Markets East | West, respectively, are market segments of Global Consumer Markets. All prior periods have been restated to reflect the new structure.

³ Other includes discontinued operations (including asbestos and environmental and related reinsurance), interest expense, internal reinsurance programs, net investment income after allocations to business units, certain expenses not allocated to the business units, income related to limited partnership and limited liability company investments, investment-related realized gains, other revenues from corporate subsidiaries and federal and foreign tax payments.

Strategic Business Units

(Dollars in millions) period ending December 31

Please refer to bottom of page 9 for footnote details.

	2016	2015
Global Consumer Markets²		
Revenues	\$21,741	\$20,749
Pre-tax operating income	1,297	1,333
Cash flow from operations	1,719	2,102
Combined ratio	97.4%	97.1%
U.S. Consumer Markets		
Revenues	\$17,920	\$17,036
Pre-tax operating income	1,220	1,366
Cash flow from operations	1,659	2,010
Combined ratio	95.8%	94.8%
Global Consumer Markets East West		
Revenues	\$3,821	\$3,713
Pre-tax operating income (loss)	77	(33)
Cash flow from operations	60	92
Combined ratio	105.2%	108.3%
Commercial Insurance		
Revenues	\$11,355	\$11,187
Pre-tax operating income	676	1,065
Cash flow from operations	1,190	1,409
Combined ratio	103.0%	98.9%
Global Specialty		
Revenues	\$5,085	\$5,227
Pre-tax operating income	605	603
Cash flow from operations	1,004	854
Combined ratio	93.9%	94.0%
Other³		
Revenues	\$127	\$454
Pre-tax operating loss	(907)	(1,009)
Cash flow used by operations	(896)	(822)



Significant Lines of Business

\$35.7 Billion 2016 Net Written Premium

- 36% Private Passenger Automobile
- 17% Homeowners
- 7% Specialty Insurance
- 6% Commercial Multi-Peril
- 6% Workers Compensation
- 5% Commercial Automobile
- 5% Group Disability and Group Life
- 18% All Other Lines

Strategic Business Units

\$35.7 Billion 2016 Net Written Premium

- Global Consumer Markets 59%
 - U.S. Consumer Markets 49%
 - Global Consumer Markets East | West 10%
- Commercial Insurance 26%
- Global Specialty 14%
- Other 1%



our
business

strength in numbers

Global Consumer Markets (GCM)

Established in February 2016, Liberty Mutual Insurance Group's Global Consumer Markets (GCM) strategic business unit combines the company's U.S. Personal Insurance business unit with its International business unit. GCM sells private passenger automobile, homeowners, and specialty property and casualty products, including watercraft, motorcycle, recreational vehicle and umbrella coverage in the U.S. under the Liberty Mutual Insurance and Safeco Insurance brands. GCM also sells consumer and small commercial insurance products in 16 countries.

This union has given GCM global scale and capabilities, matched with local knowledge, talent, innovation and agility.



Tim Sweeney, President, Global Consumer Markets
"Global Consumer Markets' 28,000 people come to work every day imagining, designing, supporting and delivering exceptional customer experiences across the globe."

2016 Highlights



Liberty Stands with You

For GCM, 2016 underscored our commitment to putting customers at the center of all we do. GCM's U.S. division launched its new "Liberty Stands with You" brand campaign, more overtly demonstrating how Liberty empowers customers to live life without worry.



All Set

We heightened our focus on innovation with the launch of All Set, a home-service referral and group discount app, and with an investment in August Home, a connected home service.



Sanpower Group Co., Ltd.

Over the past year, GCM made significant moves to strengthen our global positions. It entered an agreement with Sanpower Group Co., Ltd., one of China's leading private enterprises, to create a joint venture from our existing operation in China. Pending local regulatory approval, the transaction is intended to enhance the operation's competitiveness, allowing Liberty to maintain a strategic presence in one of the world's largest markets.



Expansion in India

GCM also grew our investment in India, increasing ownership to 49 percent of our insurance joint venture company. The move reflects our growing confidence in the India market.

focus on customers

Enhanced Personalization

This past year, we piloted new products like Notion to offer home telematics and leveraged data and technology. Our ultimate goal is to provide customers with more personalized messages and experiences, reinforcing that we are there for them — when, and how, they need us.

MasterThis™

In 2016, GCM introduced MasterThis™, a groundbreaking digital content hub complete with articles, videos and interactive features that helps customers address auto and home worries beyond insurance. Customers can use it to create moving plans, stock an emergency car kit, find a trustworthy mechanic and more. Ultimately, it delivers actionable value that Liberty Mutual's competitors cannot match.

www.libertymutual.com/masterthis



Liberty Seguros

GCM's Brazil operation, Liberty Seguros, has embraced customer-first innovations that include a mix of digital and human-centered tools. By producing customer journey maps, Liberty Seguros employees gained unique perspective into customer needs in key moments. The operation also offers online reporting of loss and status updates and recently integrated a state-of-the-art function to its Claims Core System. As a result, Liberty moves information more efficiently — and customers get what they want quickly and easily.



Coverage Compass™

Our customers' desire for increasingly digital-focused and on-demand expectations continues to grow. To address their needs, we launched Coverage Compass™, an on-line tool that helps customers navigate the details of their policies, identify potential gaps and receive additional coverage options.

www.libertymutual.com/customer-service/coverage-compass



expanding our offering

Commercial Insurance (CI)

Commercial Insurance (CI) is dedicated to meeting the comprehensive insurance needs of businesses and individuals. Through independent agents and brokers, CI offers auto, general liability, property, workers compensation and specialty coverages to small, midsize and large businesses in the U.S. CI also offers employer and individual benefits, products and services such as group life, group disability, and accident and health through brokers and consultants as well as individual financial products through banks and other channels.



J. Paul Condrin, III, President, Commercial Insurance

“We have deepened our commitment to protecting businesses and helping them succeed through new tools and resources and an expanded product offering.”

2016 Highlights



New Products, Expanded Protection

The employee benefits market is changing, creating a whole new set of customer needs. To address them, CI launched three voluntary products in 2016: group accident, critical illness and hospital indemnity. The products provide added protection for employees and families while also helping broker and consultant partners fulfill the needs of their employer clients.



Smart, More Personalized Communication

This past year, CI introduced personalized video communications designed to provide injured workers with important workers compensation claims information in a more timely and interactive way. This added touch point improves engagement and the overall claims experience, ultimately helping workers recover and return to work sooner.



Innovating for Faster Service Delivery

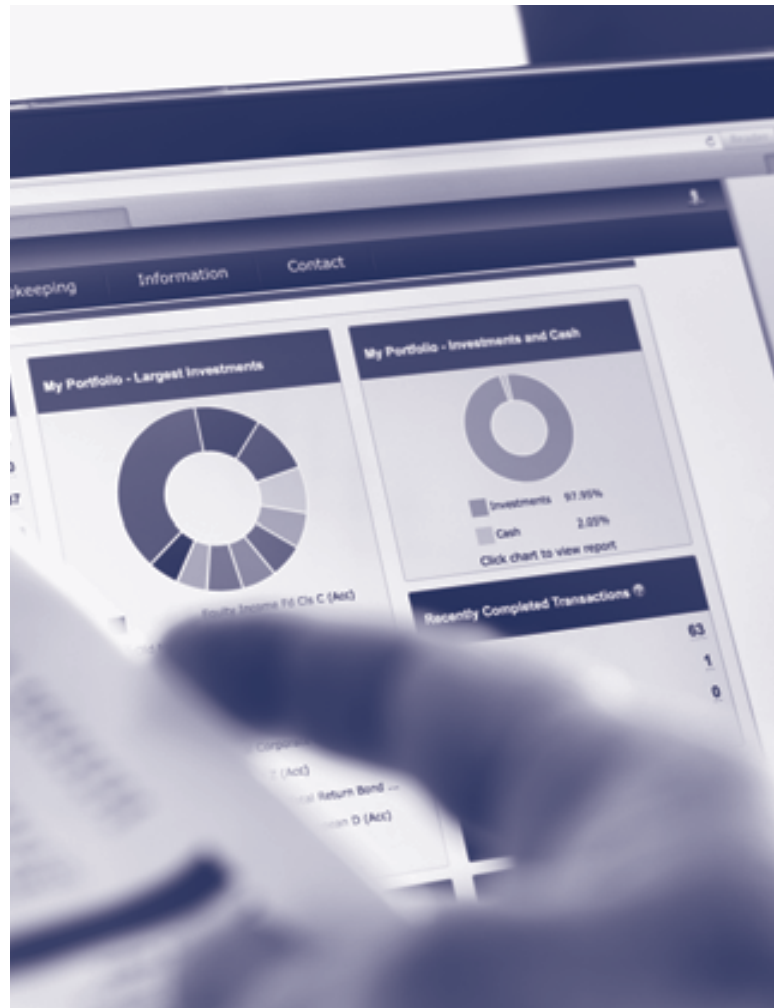
We continue to make enhancements to eCLIQ, our commercial all-lines quoting platform, to offer an experience tailored to individual exposures that provides the flexibility, speed and accuracy agents need so they can provide better service and grow their client base.



Expanded Vertical Expertise

We launched new industry verticals for the healthcare and public entity sectors. Our expertise and consultative approach across underwriting, risk control and claims in these verticals will enable us to quickly and efficiently address sector-specific trends and exposures so we can better meet the needs of our business partners and customers.

focus on service



Delivering Data-Driven Service

In today's data-driven world, having historical trends, facts and figures is invaluable when it comes to proactively managing risk. CI takes an innovative and scientific approach to helping customers understand their most pressing exposures, identify root causes of risk and implement actionable solutions to improve safety and reduce losses.



Mitigating Damage, Minimizing Disruption

In 2016, more than 5,600 hailstorms rained down on the U.S., leaving extensive losses in their wakes. CI's proprietary hail tool enables property loss control engineers to look at location-specific factors, such as roof type, age, condition and geocode, to provide a more detailed view of a customer's hail exposure, pinpointing the areas at most risk. They also provide specific recommendations, such as repairing small blisters and installing protective screens over skylights, to mitigate damage. With this information, customers can then prioritize risk management efforts on locations with the most potential for loss, minimizing damage and potential disruption to their operations.



Reducing Accidents, Lowering Costs

Managing commercial auto costs continues to be a challenge for customers. As the economy moves upward, there are more vehicles on the road driving more miles. This increased activity, combined with phone and other behind-the-wheel distractions, can result in more accidents and claims. CI introduced its Managing Vital Driving Performance (MVDP) tool that uses customers' telematics data to monitor unsafe driver behaviors, such as speeding, sharp turns and hard or sudden braking, that can lead to accidents.

This information enables a risk manager to take actions to improve driving performance before an accident happens. Early results show that customers using MVDP experienced 15 percent fewer crashes than expected.

meeting needs worldwide

Global Specialty (GS)

With offices in 20 countries, Global Specialty (GS) is composed of three market-leading operating units: Liberty Specialty Markets (LSM), Liberty International Underwriters (LIU) and Liberty Mutual Surety (LM Surety). With a global strategy executed locally, GS delivers a broad spectrum of innovative specialty insurance, reinsurance and surety products. Our risk exposure extends to more than 170 countries worldwide, and we deliver deep technical expertise and strong engagement with our brokers and clients.



Christopher Peirce, President, Global Specialty

“Global Specialty continues to heighten its focus on analytics, expense management and talent development to become a top-tier specialty lines insurer and reinsurer.”

2016 Highlights



Meeting Market Challenges

Despite an increasingly competitive global market, Global Specialty continued its strong profitability in 2016 by focusing on analytics, distribution management, expenses, innovation and technology.



Expanding Our Offering

LIU U.S. expanded its product suite to include War & Terrorism and Transactional Liability. LIU Latin America continued to build momentum in the region, launching Asurion while also increasing its business presence in Colombia, Puerto Rico and Peru.



Increasing Our Presence

LSM established a new casualty team in Cologne, Germany, and also appointed its first representative to the Lloyd's office in Beijing, China.



Building Our Bottom Line

LM Surety consolidated its Contract operations to increase efficiency and productivity, and make it easier for agents to do business with us. Recently acquired Mexican surety company, Primero Fianzas, completed integration and launched its new brand, Liberty Fianzas, while shifting its strategic focus toward larger accounts.

focus on results



Drawing on Data to Differentiate Our Business

The strategic use of data is increasingly critical to success within the specialty lines industry. GS is seeking to drive superior business decision-making by building a broad spectrum of data-driven tools to augment our underwriters' knowledge and expertise. By integrating predictive models, dashboards and other analytical tools into the process of risk selection and pricing, GS is building a data-driven culture, giving us a significant advantage in an increasingly competitive marketplace.



A Predictive Approach to Driving Improvement

In 2016, GS launched new predictive models for pricing, frequency and severity within the Contract Surety, Management Liability and General Liability product lines. GS has four additional predictive models launching in 2017, with several others currently in development. GS also launched a global pricing risk management initiative, using advanced data to establish a framework for continuous improvement around technical price, rating tools, monitoring and governance.

GS is also focused on embedding more foundational analytical tools across the enterprise. Broker management dashboards, a catastrophe-model analysis tool and financial stress reports are a few examples deployed in 2016. These foundational reporting and portfolio capabilities deliver significant short-term value, while also preparing the business for more sophisticated analytics tools in the future.

Business alignment has been a key driver in GS's analytics strategy. As predictive models are built, GS underwriters and risk engineers are an integral part of the process from the beginning, ensuring these tools complement the knowledge and expertise of the underwriter, rather than replace it.

Realizing Tangible Growth, Now and in the Future

GS's focus on analytics is paying immediate dividends. Surety results have improved significantly in 2016 as the use of predictive models, along with other operational improvements, have gained traction. Along with an increased underwriting appetite, the predictive models deployed in Management Liability and General Liability are expected to lead to growth in these two segments in 2017.



our global reach

Pushing our boundaries

Liberty Mutual Insurance Group operates in 30 countries and economies in the Americas, Europe, Asia Pacific and the Middle East through Global Consumer Markets' local company operations and Global Specialty's specialty lines offices.

50,000+

Employees
Worldwide

800+

Offices Around
the World

1912

Founded in
the U.S.



americas



- Brazil
- Canada
- Chile
- Colombia
- Ecuador
- Mexico
- Peru
- Puerto Rico
- USA
- Venezuela¹



europe



- France
- Germany
- Ireland
- Italy
- Netherlands
- Portugal
- Russia
- Spain
- Switzerland
- Turkey
- UK



asia
pacific



- Australia
- China
- Hong Kong
- India
- Malaysia
- Singapore
- Thailand
- UAE
- Vietnam

¹Effective Sept. 30, 2015, the company deconsolidated its Venezuelan operations.

**Liberty Mutual Insurance Group completed
the acquisition of Penta Security in Chile.**



our work matters

Employee service and giving

In 2016, Liberty Mutual Insurance Group continued to have a profound impact in the communities where we live and work. In May, more than 28,000 employees volunteered for nearly 2,000 service projects in 21 countries around the world as part of *Serve with Liberty*. Our employees showed their support once again in September when an astounding 72 percent donated more than \$12.3 million — \$18.5 million with the company's 50 percent match — to 8,317 deserving charities during the 10th anniversary of *Give with Liberty*.

Liberty Mutual funds nonprofits that are profoundly changing the lives of our most vulnerable neighbors. Our commitment to giving remained strong in 2016, with a 14 percent increase in corporate philanthropy — a total of \$20.2 million.



**\$12.3M Pledged by
Employees to Charities**



**28K Employees
2K Service Projects**



**\$20.2M Donated
to Non-Profits**





our lea ders

guiding our future

Our visionary team

In 2016, Liberty Mutual made great strides in expanding and redefining what insurance means to the lives and livelihood of people and businesses. As we look to the future, customers continue to shape our mission — and visionary people continue to focus our path. Meet the leaders who will help us build on our momentum and position our company for even greater growth, innovation and impact in the year ahead.



Liberty Mutual Holding Company Inc. Board of Directors



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IBM Fellow and Retired
Executive Vice President,
Innovation and Technology,
IBM Corporation, Armonk,
New York



Francis A. Doyle
President and Chief
Executive Officer, Connell
Limited Partnership, Boston,
Massachusetts



David H. Long
Chairman and Chief Executive
Officer, Liberty Mutual Holding
Company Inc., Boston,
Massachusetts



John P. Manning
Chairman, President and
Chief Executive Officer, Boston
Capital Corporation, Boston,
Massachusetts



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Energy, Boston,
Massachusetts



Myrtle Potter
Chief Executive Officer,
Myrtle Potter & Company,
Atlanta, Georgia



Ellen A. Rudnick
Senior Advisor, Polsky
Center for Entrepreneurship
and Innovation, University
of Chicago, Booth School
of Business, Chicago, Illinois



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Chairman Americas,
Ericsson Inc., Plano, Texas



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District of Columbia



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Chairman Emeritus,
Blue Cross and Blue Shield
of Massachusetts, Inc.,
Boston, Massachusetts



Annette M. Verschuren, O.C
Chair and Chief Executive
Officer, NRStor Inc., Toronto,
Ontario, Canada

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Chairman and Chief
Executive Officer

J. Eric Brosius
Executive Vice President and
Corporate Actuary

J. Paul Condrin, III
Executive Vice President

Melanie M. Foley
Executive Vice President
and Chief Talent and Enterprise
Services Officer

Neeti Bhalla
Executive Vice President and
Chief Investment Officer

James F. Kelleher
Executive Vice President
and Chief Legal Officer

Dennis J. Langwell
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and Chief Financial Officer

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Executive Vice President and
Chief Information Officer

Christopher L. Peirce
Executive Vice President

Timothy M. Sweeney
Executive Vice President

Alison B. Erbig
Senior Vice President
and Comptroller

Mark C. Touhey
Senior Vice President
and Secretary

Laurance H.S. Yahia
Senior Vice President
and Treasurer

Liberty Mutual Group Operating Management

Global Consumer Markets

Timothy M. Sweeney
President

Pablo Barahona
Chief Operating Officer,
Global Consumer Markets West

Tyree W. Harris
Chief Product Officer

James M. MacPhee
Chief Operating Officer,
U.S. Consumer Markets

Matthew D. Nickerson
Chief Operating Officer,
Global Consumer Markets East

U.S. Consumer Markets

Alan R. Schlosberg
President, USCM Distribution
& Service Operations

Margaret Dillon
Chief Customer Officer

Anthony R. Storm
General Manager, USCM Marketing,
Direct & Digital

Dave Chiaruttini
General Manager, Claims Strategy,
Analytics, Product and Technology

Dean Peasley
General Manager,
Claims Field Operations

Global Consumer Markets East | West

Roopam Asthana
President, Liberty Videocon
General Insurance, India

Martin Bridger
President, Liberty Insurance,
China

Fernando Cámbara
CEO, Chilean Operations,
Chile

Luiz Francisco Campos

President, Liberty Seguros,
Colombia

Sucheng Chang

President, Liberty Insurance,
Singapore

Thuan Do

President, Liberty Insurance,
Vietnam

Stella Fok

President, Liberty Insurance,
Hong Kong

John Fu

President, LMG Insurance,
Thailand

Enrique Huerta

President, Liberty Seguros,
Spain

Sergei Kovaltchuk

President, Liberty Страхование,
Russia

Carlos Magnarelli

President, Liberty Seguros,
Brazil

Tom McIlduff

President, Liberty Insurance,
Ireland

José Antonio de Sousa

President, Liberty Seguros,
Portugal

David Tan

President, Liberty Insurance Berhad,
Malaysia

Defne Turkes

President, Liberty Sigorta,
Turkey

Carlos Vanegas

President, Liberty Seguros,
Ecuador

Commercial Insurance**J. Paul Condrin, III**

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Michael J. Fallon

President, National Insurance

Stephen J. McAnena

President, Business Insurance

Deborah S. McGonigle

Chief Marketing Officer

Tracy A. Ryan

Chief Claims Officer

Rebecca L. Schechter

President, Liberty Mutual Benefits

Business Insurance**Spencer J. Donkin**

General Manager, Field Operations

Erin Rodliff

Chief Underwriting and Pricing Officer

National Insurance**Debbie L. Michel**

General Manager, National Insurance Casualty

David T. Perez

General Manager, National Insurance Specialty

David R. Dwortz

President, Helmsman Management Services

Jeff McFarland

Manager, Distribution Management

Liberty Mutual Benefits**Michael Prestileo**

General Manager, Distribution

Matthew J. Waters

Chief Product and Underwriting Officer

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Chief Underwriting Officer

Michael J. Abdallah
President, LIU Asia Pacific

James M. Hinchley
President, LIU Americas

Michael T. Finnegan
Chief Underwriting Officer, LIU U.S.

Alexander Montoya
President, LIU Latin America

Garth M. Pepper
President, LIU Canada

Nicholas J. Metcalf
President, Liberty Specialty Markets

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President, Liberty Mutual Surety



