



**Liberty  
Mutual<sup>®</sup>**  

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**INSURANCE**

## First Quarter 2017 Results

# Cautionary Statement Regarding Forward Looking Statements

This report contains forward looking statements that are intended to enhance the reader's ability to assess the future financial and business performance of Liberty Mutual Holding Company Inc., the parent corporation of the Liberty Mutual Insurance group of entities (the "Company" or "LMHC"). Forward looking statements include, but are not limited to, statements that represent the Company's beliefs concerning future operations, strategies, financial results or other developments, and contain words and phrases such as "may," "expects," "should," "believes," "anticipates," "estimates," "intends" or similar expressions. Because these forward looking statements are based on estimates and assumptions that are subject to significant business, economic and competitive uncertainties, many of which are beyond the Company's control or are subject to change, actual results could be materially different.

Some of the factors that could cause actual results to differ include, but are not limited to the following: the occurrence of catastrophic events (including terrorist acts, hurricanes, hail, tornados, tsunamis, earthquakes, floods, snowfall and winter conditions); inadequacy of loss reserves; adverse developments involving asbestos, environmental or toxic tort claims and litigation; adverse developments in the cost, availability or ability to collect reinsurance; disruptions to the Company's relationships with its independent agents and brokers; financial disruption or a prolonged economic downturn; the performance of the Company's investment portfolios; a rise in interest rates; risks inherent in the Company's alternative investments in private limited partnerships ("LP"), limited liability companies ("LLC"), commercial mortgages and natural resource working interests; difficulty in valuing certain of the Company's investments; subjectivity in the determination of the amount of impairments taken on the Company's investments; unfavorable outcomes from litigation and other legal proceedings, including the effects of emerging claim and coverage issues and investigations by state and federal authorities; the Company's exposure to credit risk in certain of its business operations; the Company's inability to obtain price increases or maintain market share due to competition or otherwise; inadequacy of the Company's pricing models; changes to insurance laws and regulations; changes in the amount of statutory capital that the Company must hold to maintain its financial strength and credit ratings; regulatory restrictions on the Company's ability to change its methods of marketing and underwriting in certain areas; assessments for guaranty funds and mandatory pooling arrangements; a downgrade in the Company's claims-paying and financial strength ratings; the ability of the Company's subsidiaries to pay dividends to the Company; inflation, including inflation in medical costs and automobile and home repair costs; the cyclical nature of the property and casualty insurance industry; political, legal, operational and other risks faced by the Company's international business; potentially high severity losses involving the Company's surety products; loss or significant restriction on the Company's ability to use credit scoring in the pricing and underwriting of personal lines policies; inadequacy of the Company's controls to ensure compliance with legal and regulatory standards; changes in federal or state tax laws; risks arising out of the Company's securities lending program; the Company's utilization of information technology systems and its implementation of technology innovations; difficulties with technology or data security; insufficiency of the Company's business continuity plan in the event of a disaster; the Company's ability to successfully integrate operations, personnel and technology from its acquisitions; insufficiency of the Company's enterprise risk management models and modeling techniques; and changing climate conditions. The Company's forward looking statements speak only as of the date of this report or as of the date they are made and should be regarded solely as the Company's current plans, estimates and beliefs. For a detailed discussion of these and other cautionary statements, visit the Company's Investor Relations website at [www.libertymutualgroup.com/investors](http://www.libertymutualgroup.com/investors). The Company undertakes no obligation to update these forward looking statements.

# Liberty Mutual Overview

Mission statement: Helping people live safer, more secure lives



## Strategic Business Units (SBUs)



- Mutual holding company structure
- \$125.6B of assets and \$38.3B of revenues in 2016
- The most diversified P&C insurer
- 73<sup>rd</sup> among Fortune 500 companies<sup>1</sup>
- 4<sup>th</sup> largest P&C writer in the U.S.<sup>2</sup>
- 4<sup>th</sup> largest commercial lines writer in the U.S.<sup>2</sup>
- 6<sup>th</sup> largest personal lines writer in the U.S.<sup>2</sup>
- 6<sup>th</sup> largest global P&C insurer<sup>3</sup>

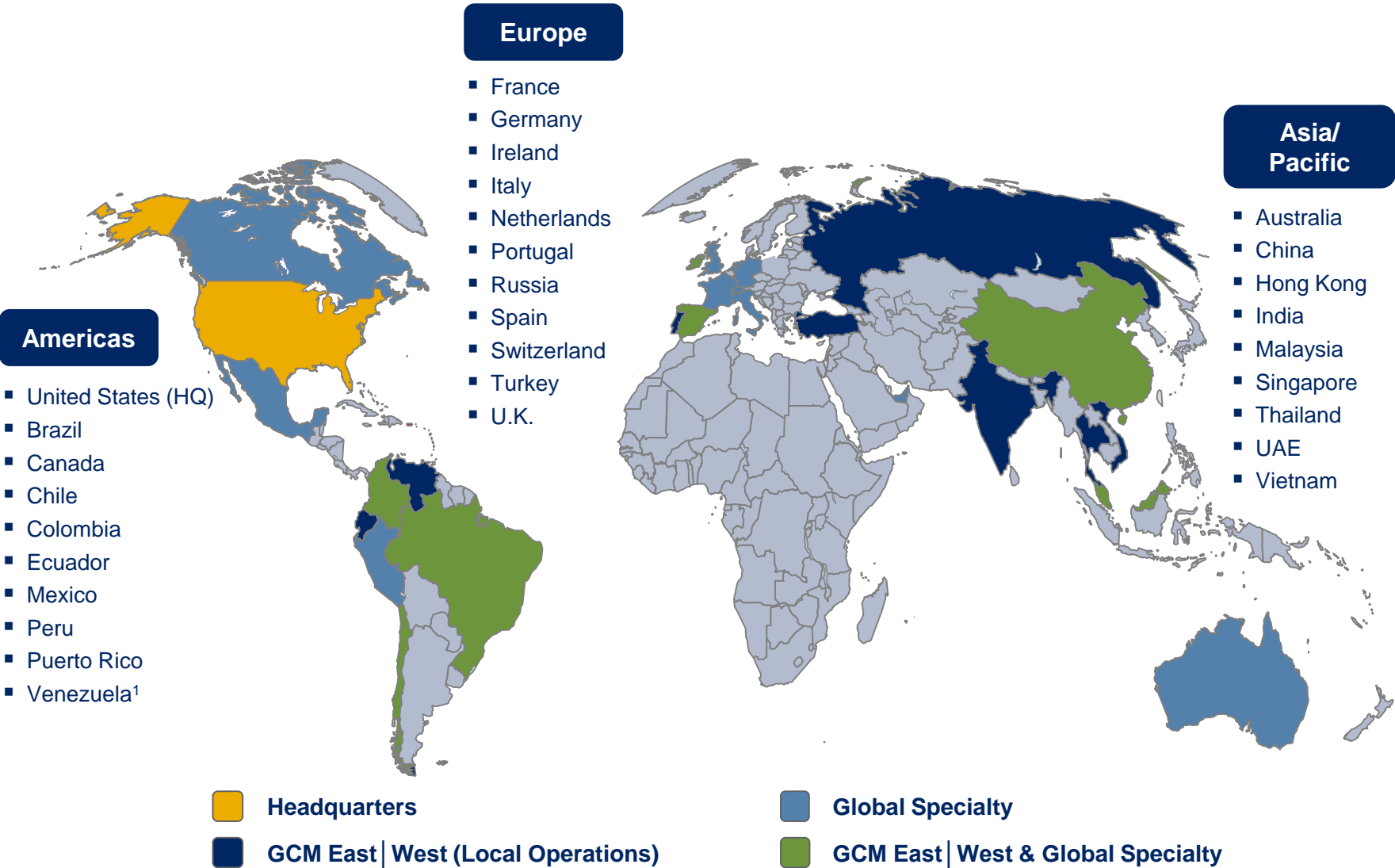
<sup>1</sup> Based on 2015 Revenue – as reported.

<sup>2</sup> Based on 2016 DWP.

<sup>3</sup> Based on 2016 GWP, excludes state-owned companies.

# Liberty Mutual's Global Presence

*Liberty Mutual operates in 30 countries and economies around the globe*



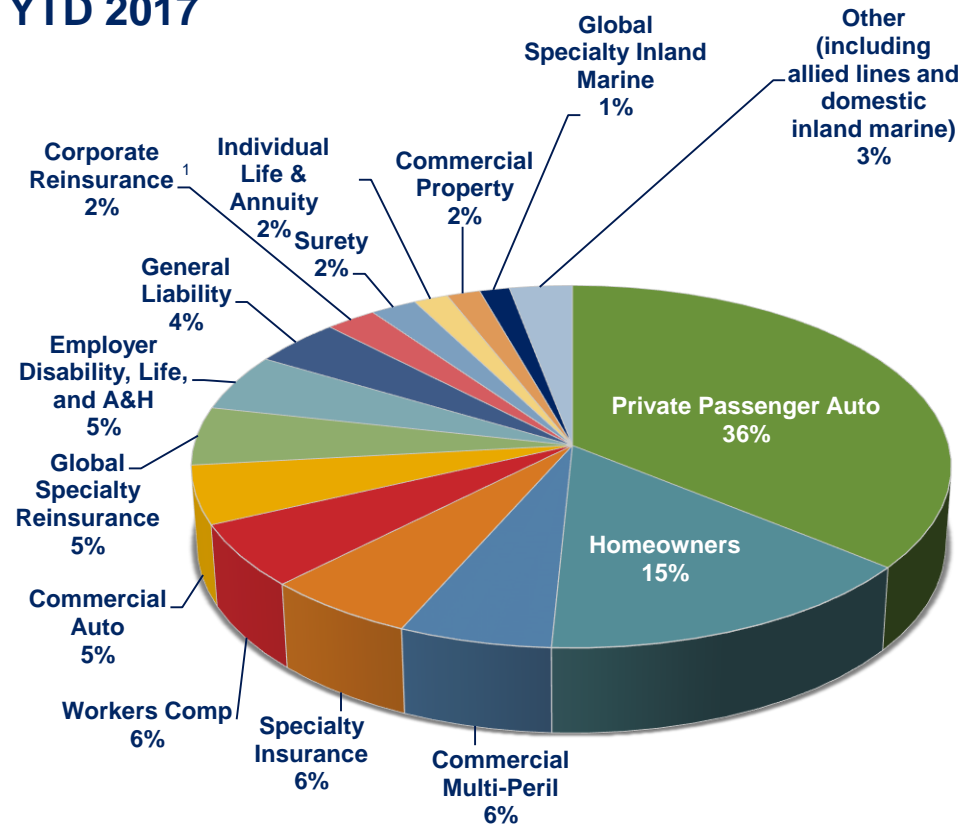
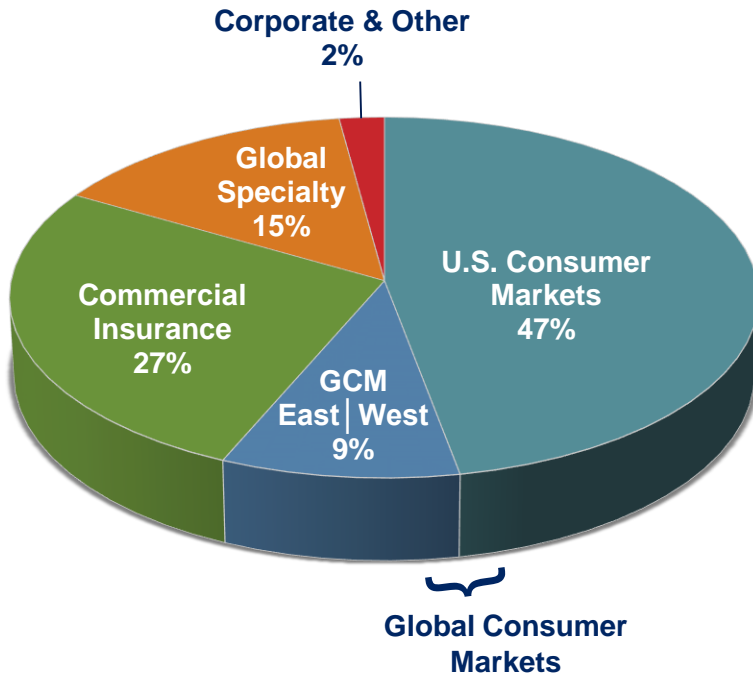
<sup>1</sup> Effective September 30, 2015, the Company deconsolidated its Venezuelan operations.

# Analysis of Consolidated Net Written Premium “NWP”

## NWP by SBU

## NWP by line of business

March YTD 2017



NWP of **\$9.2** billion increased **5.3%** over 2016.

<sup>1</sup> NWP associated with internal reinsurance, net of corporate external placements.

# Consolidated Results

(\$ Millions)	First Quarter		
	2017	2016	Change
<b>NWP</b>	<b>\$9,234</b>	<b>\$8,772</b>	<b>5.3%</b>
Pre-tax Operating Income (“PTOI”) before partnerships, LLC and other equity method income	\$168	\$614	(72.6%)
Partnerships, LLC and other equity method income <sup>1</sup>	162	23	NM
Net realized gains (losses)	169	(39)	NM
Consolidated net income	351	403	(12.9)
Less: Net income attributable to non-controlling interest	-	10	(100.0)
<b>Net income attributable to LMHC</b>	<b>\$351</b>	<b>\$393</b>	<b>(10.7%)</b>
Cash flow provided by operations before pension contributions	\$335	\$400	(16.3%)
Pension contributions	(401)	(101)	NM
<b>Cash flow (used in) provided by operations</b>	<b>(\$66)</b>	<b>\$299</b>	<b>NM</b>

(\$ Millions)	As of		
	March 31, 2017	December 31, 2016	Change
<b>Total equity</b>	<b>\$21,014</b>	<b>\$20,387</b>	<b>3.1%</b>

<sup>1</sup> Partnerships, LLC and other equity method income includes LP, LLC and other equity method income within net investment income in the accompanying Consolidated Statements of Income and revenue and expenses from the production and sale of oil and gas.  
 NM = Not Meaningful

# Consolidated Results

	First Quarter		
	2017	2016	Change (Points)
Claims and claim adjustment expense ratio	64.0%	61.7%	2.3
Underwriting expense ratio	29.9	30.6	(0.7)
<b>Combined ratio before catastrophes and net incurred losses attributable to prior years</b>	<b>93.9</b>	<b>92.3</b>	<b>1.6</b>
Catastrophes <sup>1</sup>	7.7	4.8	2.9
Net incurred losses attributable to prior years			
Asbestos & environmental	-	-	-
All other <sup>2</sup>	(0.1)	(0.8)	0.7
<b>Total combined ratio<sup>3</sup></b>	<b>101.5%</b>	<b>96.3%</b>	<b>5.2</b>

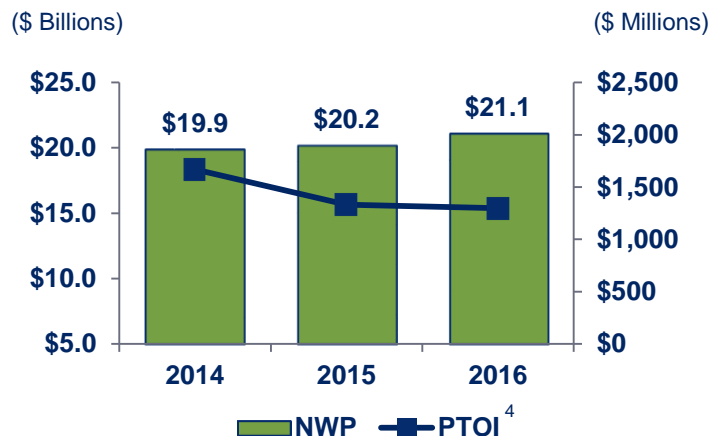
<sup>1</sup> Catastrophes are defined as a natural catastrophe or terror event exceeding \$25 million in estimated ultimate losses, net of reinsurance, and before taxes. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

<sup>2</sup> Net of earned premium and reinstatement premium attributable to prior years.

<sup>3</sup> The combined ratio, expressed as a percentage, is a measure of underwriting profitability. This measure should only be used in conjunction with, and not in lieu of, underwriting income and may not be comparable to other performance measures used by the Company's competitors. The combined ratio is computed as the sum of the following property and casualty ratios: the ratio of claims and claim adjustment expense less managed care income to earned premium; the ratio of insurance operating costs plus amortization of deferred policy acquisition costs less third-party administration income and fee income (primarily related to the Company's involuntary market servicing carrier operations) and installment charges to earned premium; and the ratio of policyholder dividends to earned premium. Provisions for uncollectible premium and reinsurance are not included in the combined ratio unless related to asbestos and environmental and certain other run off. Restructuring and Ironshore acquisition costs are not included in the combined ratio.

# Global Consumer Markets

## NWP & PTOI



## Segment Highlights

- Operates in 17 countries and economies
- 6<sup>th</sup> largest writer of personal lines in the U.S.<sup>2</sup>
- 3<sup>rd</sup> largest independent agency writer in the U.S.<sup>3</sup>
- A market leader in affinity marketing, with over 22,000 sponsored affinity relationships

<sup>1</sup> Catastrophes are defined as a natural catastrophe or terror event exceeding \$25 million in estimated ultimate losses, net of reinsurance, and before taxes. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

<sup>2</sup> Based on 2016 DWP.

<sup>3</sup> Based on Q3 2016 DWP (rolling 12-months).

<sup>4</sup> PTOI as reported

On September 30, 2016, the Company completed the sale of substantially all the assets and liabilities of its Polish operation resulting in an immaterial gain. The results of the Polish operation are presented in the Corporate and Other section and are no longer reported in Global Consumer Markets East|West. All prior periods have been adjusted to reflect this change.

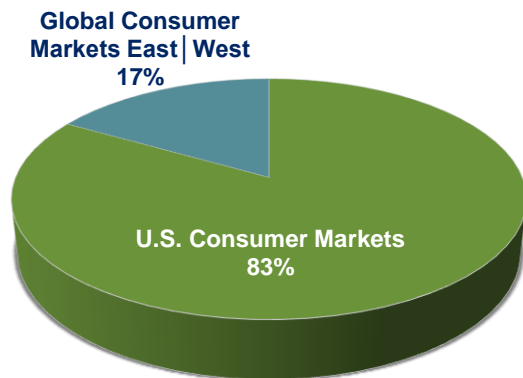
## Financial Performance

(\$ Millions)	First Quarter		
	2017	2016	Change
<b>NWP</b>	<b>\$5,215</b>	<b>\$4,882</b>	<b>6.8%</b>
PTOI before catastrophes and net incurred losses attributable to prior years	\$538	\$547	(1.6%)
Catastrophes <sup>1</sup>	(542)	(330)	64.2
Net incurred losses attributable to prior years	17	9	88.9
<b>Pre-tax operating income</b>	<b>\$13</b>	<b>\$226</b>	<b>(94.2%)</b>
	First Quarter		
	2017	2016	Change (Points)
<b>Combined ratio before catastrophes and net incurred losses attributable to prior years</b>			
Claims and claim adjustment expense ratio	65.1%	63.6%	1.5
Underwriting expense ratio	27.1	28.0	(0.9)
<b>Subtotal</b>	<b>92.2%</b>	<b>91.6%</b>	<b>0.6</b>
Catastrophes <sup>1</sup>	10.4	6.6	3.8
Net incurred losses attributable to prior years	(0.3)	(0.2)	(0.1)
<b>Total combined ratio</b>	<b>102.3%</b>	<b>98.0%</b>	<b>4.3</b>

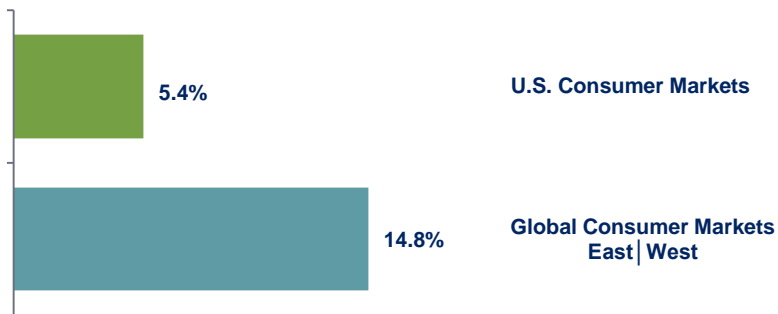


# Global Consumer Markets NWP Distribution

## NWP by market segment

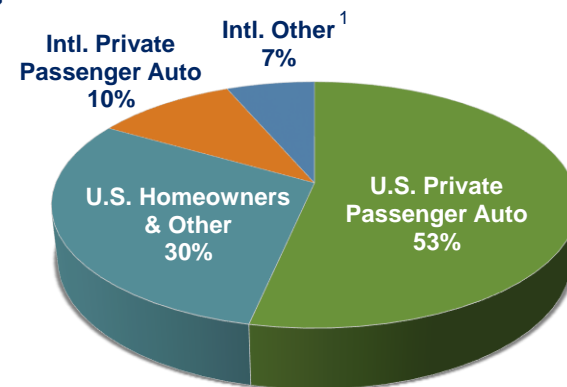


### YOY Change in NWP

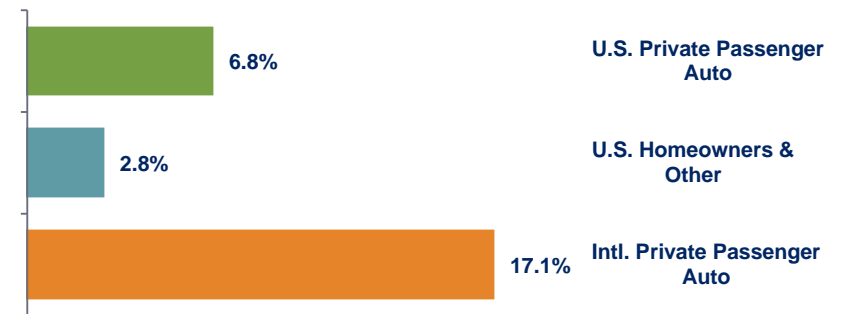


## NWP by line of business

March YTD 2017



### YOY Change in NWP



NWP year-to-date in 2017 totaled **\$5.2 billion**, an increase of **6.8%** over the same period in 2016.

<sup>1</sup> Premium related to life and health, commercial auto, homeowners, and other personal and commercial lines including personal accident, bonds, workers compensation, small and medium enterprise, marine and cargo, and commercial property lines of business.

# U.S. Consumer Markets: Financial Performance

(\$ Millions)

## NWP

PTOI before catastrophes and net incurred losses attributable to prior years

Catastrophes<sup>1</sup>

Net incurred losses attributable to prior years

## Pre-tax operating income

Claims and claim adjustment expense ratio

Underwriting expense ratio

## Combined ratio before catastrophes and net incurred losses attributable to prior years

Catastrophes<sup>1</sup>

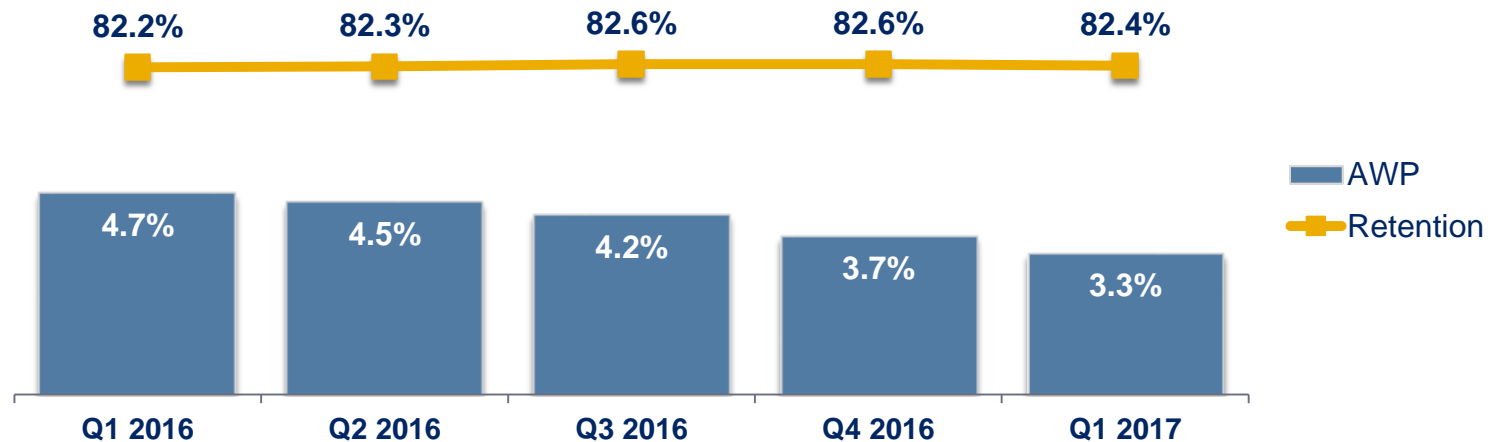
Net incurred losses attributable to prior years

## Total combined ratio

First Quarter		
2017	2016	Change
<b>\$4,345</b>	<b>\$4,124</b>	<b>5.4%</b>
\$551	\$548	0.5
(542)	(330)	64.2
5	(5)	NM
<b>\$14</b>	<b>\$213</b>	<b>(93.4%)</b>
First Quarter		
2017	2016	Change (Points)
64.6%	63.1%	1.5
24.3	25.5	(1.2)
<b>88.9%</b>	<b>88.6%</b>	<b>0.3</b>
12.5	7.9	4.6
(0.1)	0.1	(0.2)
<b>101.3%</b>	<b>96.6%</b>	<b>4.7</b>

<sup>1</sup> Catastrophes are defined as a natural catastrophe or terror event exceeding \$25 million in estimated ultimate losses, net of reinsurance, and before taxes. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.  
 NM = Not Meaningful

# U.S. Consumer Markets: Average Written Premium (AWP), Retention, & PIF<sup>1</sup>



	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017
<b>Private Passenger Auto</b>					
AWP <sup>2</sup>	4.0%	4.2%	4.4%	4.8%	5.1%
Retention	81.2%	81.3%	81.5%	81.5%	81.1%
PIF growth	1.2%	1.6%	1.8%	1.5%	1.2%
<b>Homeowners</b>					
AWP	3.3%	2.4%	1.5%	1.1%	0.7%
Retention	82.3%	82.3%	82.5%	82.7%	82.6%
PIF growth	1.0%	1.3%	1.5%	1.5%	1.6%

PIF: policies in-force. Retention is in-force. AWP reported on a 12-month rolling basis.

<sup>1</sup> Prior periods' AWP, Retention, and PIF growth have been restated to align with the Company's updated definition of the terms.

<sup>2</sup> Private Passenger Auto AWP is weighted for 6 and 12 month policy term mix.

# Global Consumer Markets East | West: Financial Performance

(\$ Millions)

## NWP

Pre-tax operating loss before catastrophes and net incurred losses attributable to prior years

Catastrophes<sup>1</sup>

Net incurred losses attributable to prior years

## Pre-tax operating (loss) income

Claims and claim adjustment expense ratio

Underwriting expense ratio

## Combined ratio before catastrophes and net incurred losses attributable to prior years

Catastrophes<sup>1</sup>

Net incurred losses attributable to prior years

## Total combined ratio

	First Quarter		
	2017	2016	Change
	<b>\$870</b>	<b>\$758</b>	<b>14.8%</b>
	(\$13)	(\$1)	NM
	-	-	-
	12	14	(14.3)
	<b>(\$1)</b>	<b>\$13</b>	<b>NM</b>
	First Quarter		
	2017	2016	Change (Points)
	67.5%	66.3%	1.2
	41.1	40.8	0.3
	<b>108.6%</b>	<b>107.1%</b>	<b>1.5</b>
	-	-	-
	(1.5)	(1.8)	0.3
	<b>107.1%</b>	<b>105.3%</b>	<b>1.8</b>

<sup>1</sup> Catastrophes are defined as a natural catastrophe or terror event exceeding \$25 million in estimated ultimate losses, net of reinsurance, and before taxes. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

NM = Not Meaningful

# Global Consumer Markets East | West: Global Presence

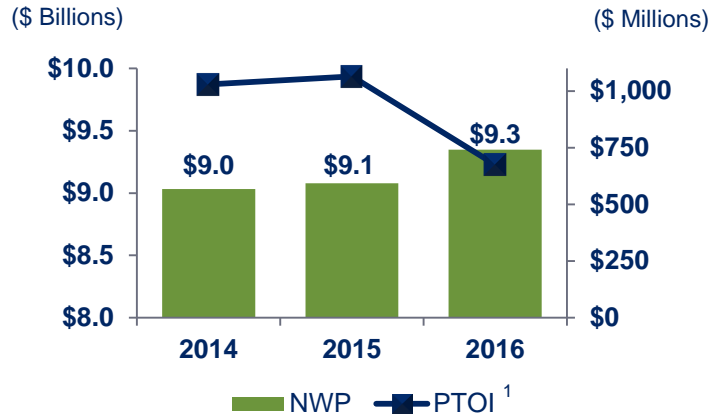
(\$ Millions)

West	2016 NWP	P&C Rank	P&C Share
Brazil	\$762	10 <sup>th</sup>	3.6%
Spain	\$707	15 <sup>th</sup>	2.0%
Chile	\$336	1 <sup>st</sup>	17.1%
Colombia	\$301	4 <sup>th</sup>	7.1%
Portugal	\$260	5 <sup>th</sup>	6.8%
Ireland	\$222	10 <sup>th</sup>	1.6%
Ecuador	\$56	7 <sup>th</sup>	3.8%

East	2016 NWP	P&C Rank	P&C Share
China	\$178	39 <sup>th</sup>	0.1%
Thailand	\$168	10 <sup>th</sup>	2.7%
Malaysia	\$120	14 <sup>th</sup>	3.3%
Singapore	\$105	6 <sup>th</sup>	3.8%
Hong Kong	\$98	18 <sup>th</sup>	1.7%
India	\$68	25 <sup>th</sup>	0.4%
Russia	\$51	31 <sup>st</sup>	0.4%
Turkey	\$47	23 <sup>rd</sup>	0.6%
Vietnam	\$23	11 <sup>th</sup>	1.9%

# Commercial Insurance

## NWP & PTOI



## Segment Highlights

- As an SBU, 7<sup>th</sup> largest U.S. P&C commercial lines insurer measured by DWP - \$8.2B<sup>4</sup>
- Equipped to underwrite and service a wide spectrum of exposures, from small proprietors to multi-nationals
- Approximately 5,800 active P&C independent agents and brokers in 13,200 locations

<sup>1</sup> PTOI as reported

<sup>2</sup> Catastrophes are defined as a natural catastrophe or terror event exceeding \$25 million in estimated ultimate losses, net of reinsurance, and before taxes. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

<sup>3</sup> Net of earned premium and reinstatement premium attributable to prior years of \$8 million for the three months ended March 31, 2017 and (\$4) million for the same period in 2016.

<sup>4</sup> Based on 2016 DWP (excludes LMB).

NM = Not Meaningful

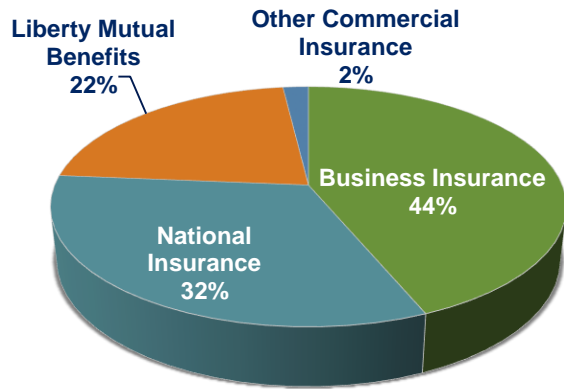
## Financial Performance

(\$ Millions)	First Quarter		
	2017	2016	Change
<b>NWP</b>	<b>\$2,480</b>	<b>\$2,294</b>	<b>8.1%</b>
PTOI before catastrophes and net incurred losses attributable to prior years	\$249	\$305	(18.4%)
Catastrophes <sup>2</sup>	(106)	(58)	82.8
Net incurred losses attributable to prior years <sup>3</sup>	(3)	6	NM
<b>Pre-tax operating income</b>	<b>\$140</b>	<b>\$253</b>	<b>(44.7%)</b>

	First Quarter		
	2017	2016	Change (Points)
<b>Combined ratio before catastrophes and net incurred losses attributable to prior years</b>			
Claims and claim adjustment expense ratio	61.6%	58.4%	3.2
Underwriting expense ratio	34.8	35.5	(0.7)
Dividend ratio	0.1	0.1	-
<b>Subtotal</b>	<b>96.5%</b>	<b>94.0%</b>	<b>2.5</b>
Catastrophes <sup>2</sup>	5.7	3.2	2.5
Net incurred losses attributable to prior years <sup>3</sup>	0.3	(0.4)	0.7
<b>Total combined ratio</b>	<b>102.5%</b>	<b>96.8%</b>	<b>5.7</b>

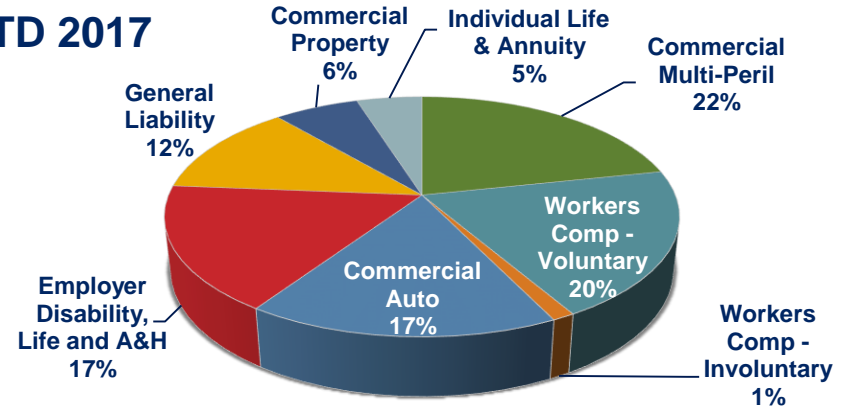
# Commercial Insurance NWP Distribution

## NWP by market segment

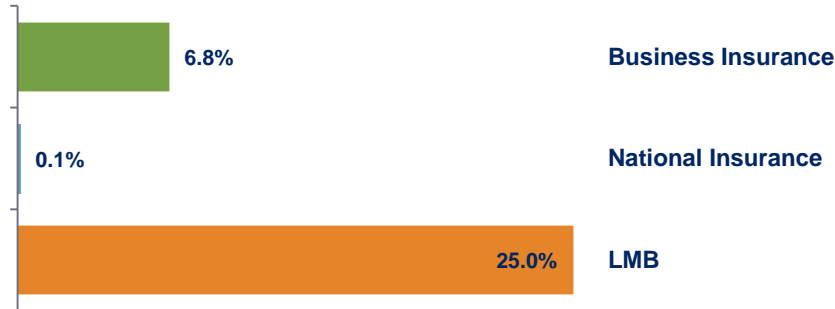


## NWP by line of business

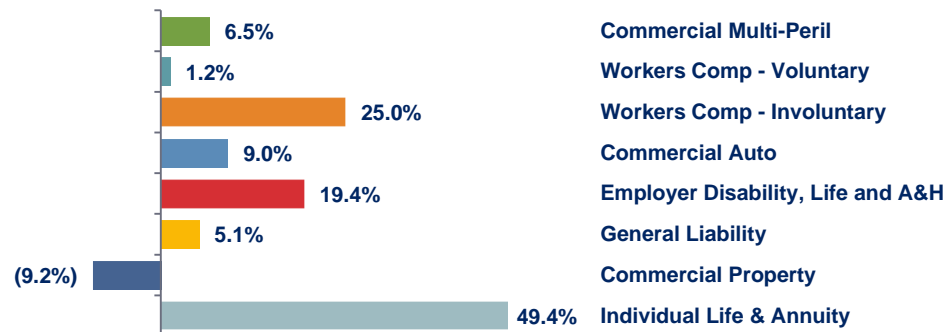
March YTD 2017



## YOY Change in NWP



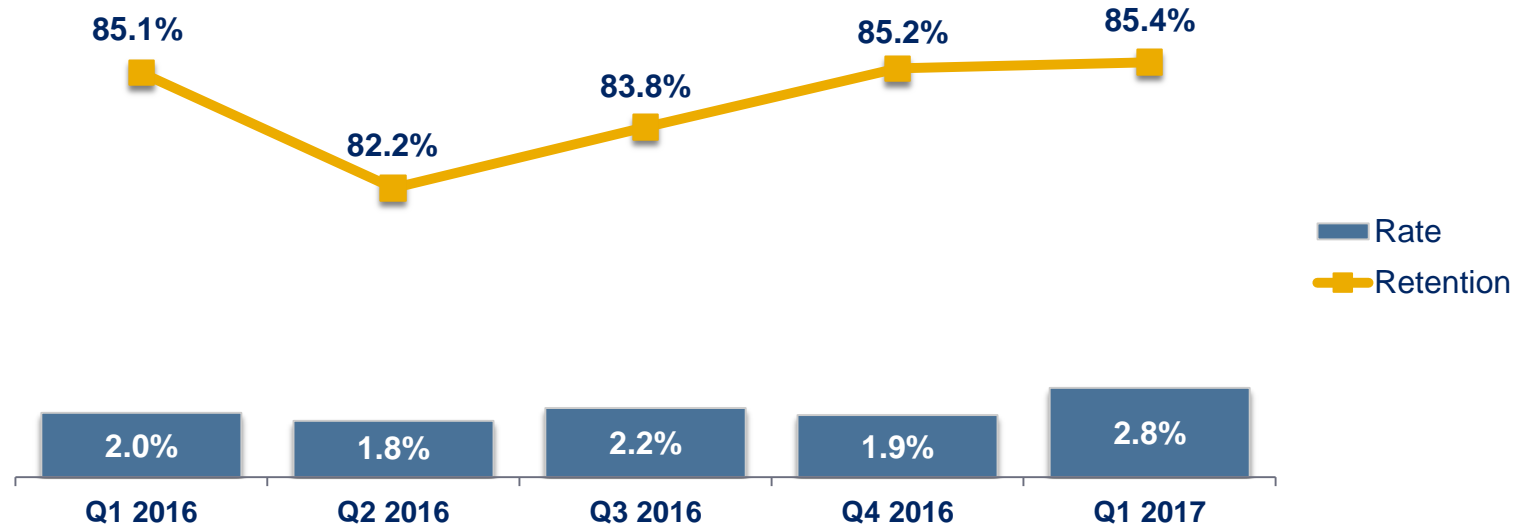
## YOY Change in NWP



NWP year-to-date in 2017 totaled \$2.5 billion, an increase of 8.1% over the same period in 2016.

YOY: Year-over-Year

# Commercial Insurance: Rate & Retention



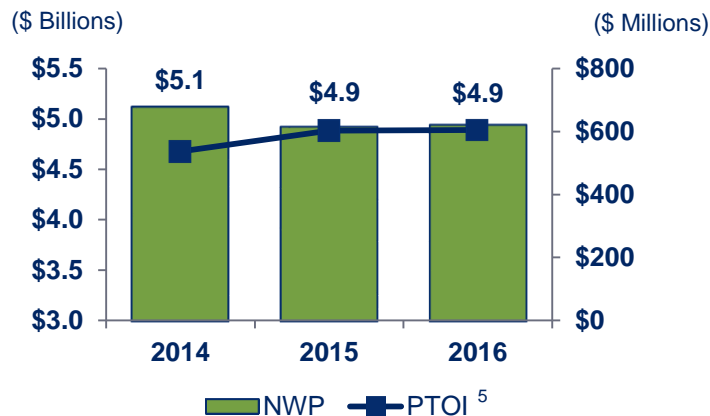
	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017
<b>Business Insurance</b>					
Rate	3.6%	3.3%	3.5%	3.1%	3.8%
Retention	83.3%	83.4%	83.2%	84.4%	85.0%
<b>National Insurance</b>					
Rate	-	(0.5%)	0.6%	0.5%	1.3%
Retention	87.2%	80.8%	84.4%	86.2%	85.8%
<b>Commercial Insurance P&amp;C</b>					
Rate	2.0%	1.8%	2.2%	1.9%	2.8%
Retention	85.1%	82.2%	83.8%	85.2%	85.4%

Note: Business Drivers are ex Liberty Mutual Benefits.



# Global Specialty

## NWP & PTOI



### Segment Highlights

- 8<sup>th</sup> largest Lloyd's Syndicate<sup>3</sup>
- 2<sup>nd</sup> largest surety writer in the U.S.<sup>4</sup>
- Business sold through broker and independent agent channels
- A premier specialty casualty lines underwriter

## Financial Performance

(\$ Millions)	First Quarter		
	2017	2016	Change
<b>NWP</b>	<b>\$1,343</b>	<b>\$1,380</b>	<b>(2.7%)</b>
PTOI before catastrophes and net incurred losses attributable to prior years	\$137	\$144	(4.9%)
Catastrophes <sup>1</sup>	(1)	-	NM
Net incurred losses attributable to prior years <sup>2</sup>	2	17	(88.2)
<b>Pre-tax operating income</b>	<b>\$138</b>	<b>\$161</b>	<b>(14.3%)</b>

	First Quarter		
	2017	2016	Change (Points)
<b>Combined ratio before catastrophes and net incurred losses attributable to prior years</b>			
Claims and claim adjustment expense ratio	59.4%	57.8%	1.6
Underwriting expense ratio	34.1	34.6	(0.5)
Dividend ratio	0.2	0.2	-
<b>Subtotal</b>	<b>93.7%</b>	<b>92.6%</b>	<b>1.1</b>
Catastrophes <sup>1</sup>	-	-	-
Net incurred losses attributable to prior years <sup>2</sup>	(0.1)	(1.4)	1.3
<b>Total combined ratio</b>	<b>93.6%</b>	<b>91.2%</b>	<b>2.4</b>

<sup>1</sup> Catastrophes are defined as a natural catastrophe or terror event exceeding \$25 million in estimated ultimate losses, net of reinsurance, and before taxes. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

<sup>2</sup> Net of earned premium and reinstatement premium attributable to prior years of (\$5) million for the three months ended March 31, 2017, and \$5 million for the same period in 2016.

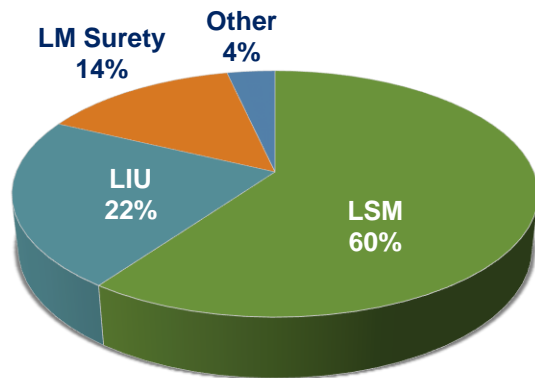
<sup>3</sup> Based on 2015 GWP.

<sup>4</sup> Based on 2016 NWP.

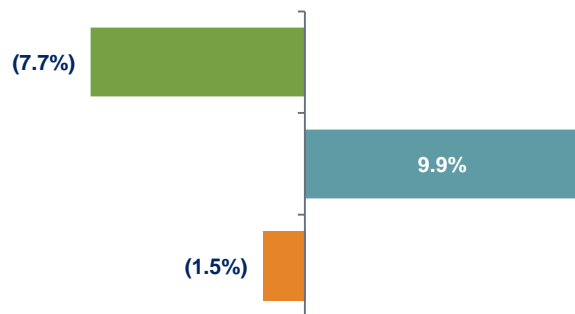
<sup>5</sup> PTOI as reported

# Global Specialty NWP Distribution

## NWP by market segment

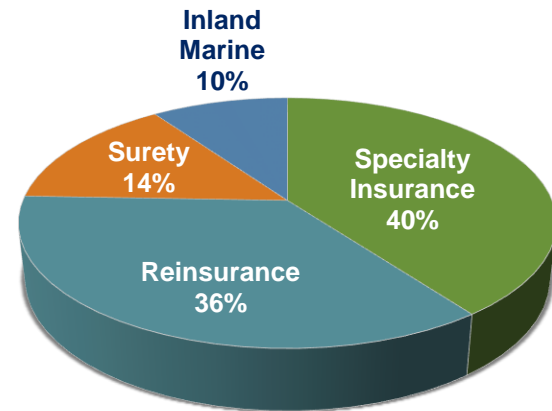


### YOY Change in NWP

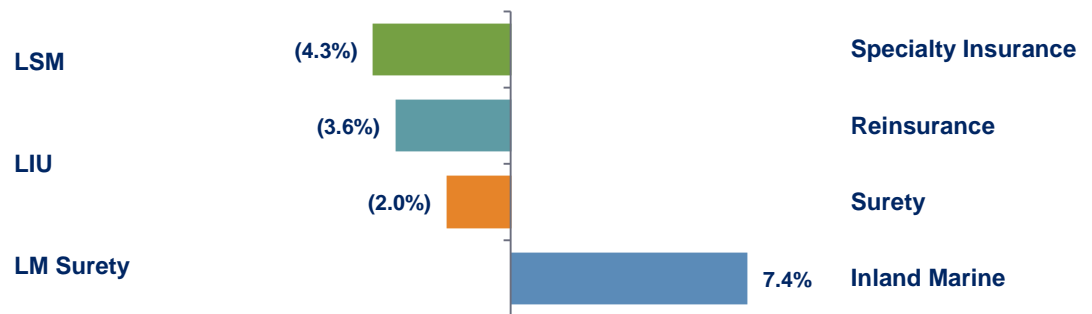


## NWP by line of business

March YTD 2017



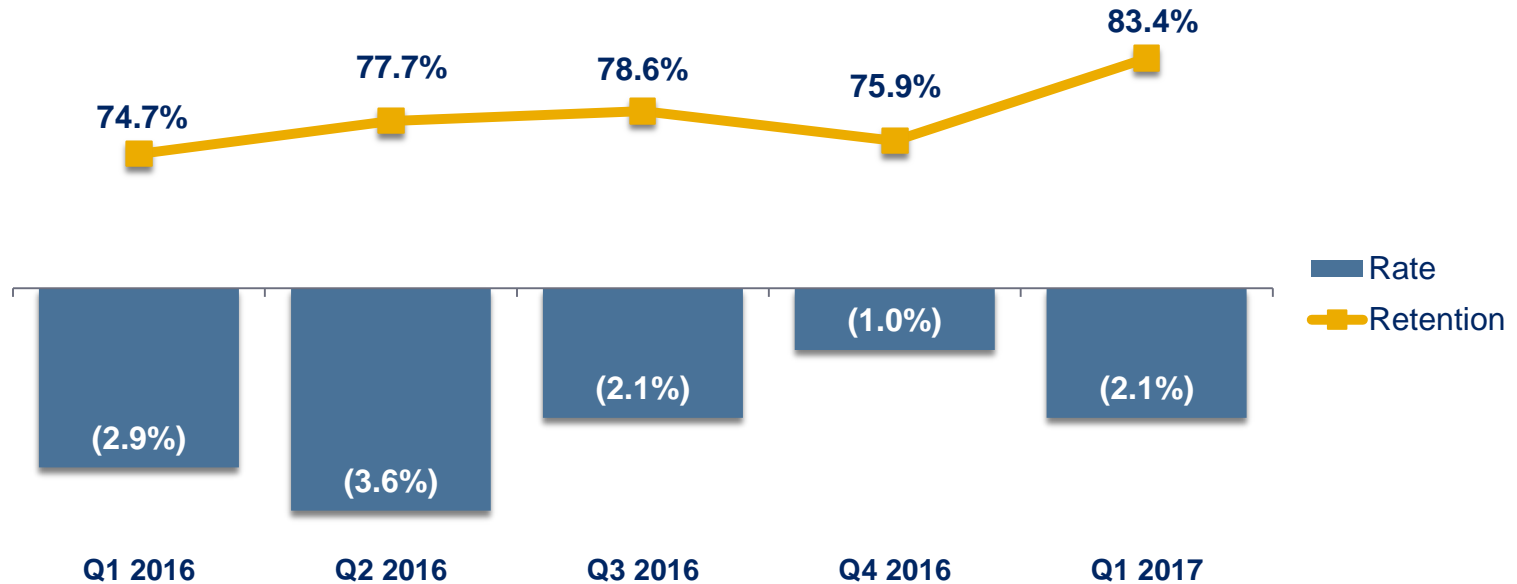
### YOY Change in NWP



NWP year-to-date in 2017 totaled **\$1.3 billion**, a decrease of **2.7%** from the same period in 2016 (or a decrease of **1.0%**<sup>1</sup> excluding FX from the same period in 2016).

<sup>1</sup> Determined by assuming constant foreign exchange rates between periods.  
YOY: year-over-year

# Global Specialty: Rate & Retention

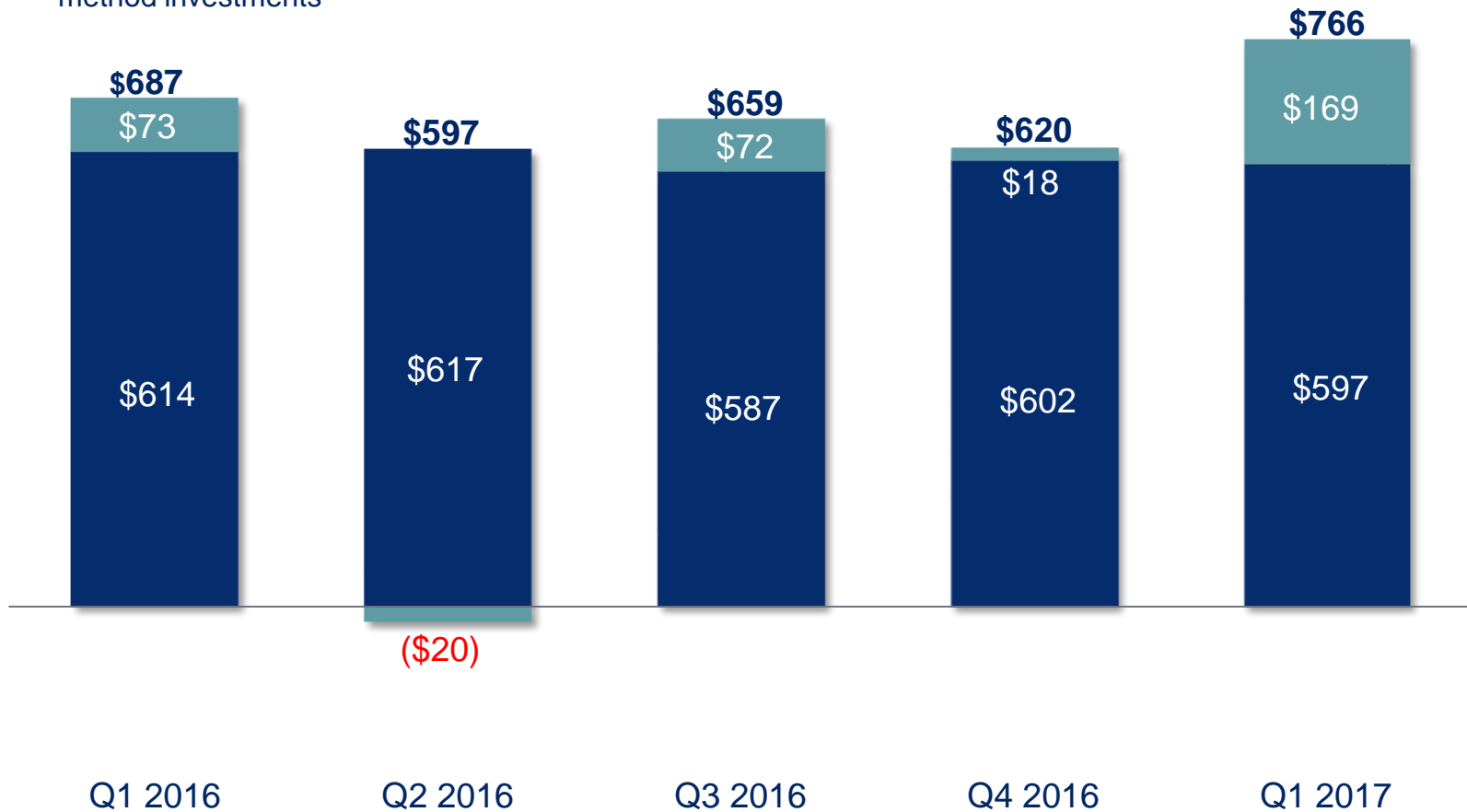


	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017
<b>Insurance</b>					
Rate	(1.5%)	(3.4%)	(2.1%)	(0.9%)	(1.9%)
Retention	68.7%	76.4%	75.4%	75.6%	80.7%
<b>Reinsurance</b>					
Rate	(4.4%)	(4.3%)	(1.9%)	(2.3%)	(2.2%)
Retention	82.3%	83.1%	89.8%	78.7%	85.8%

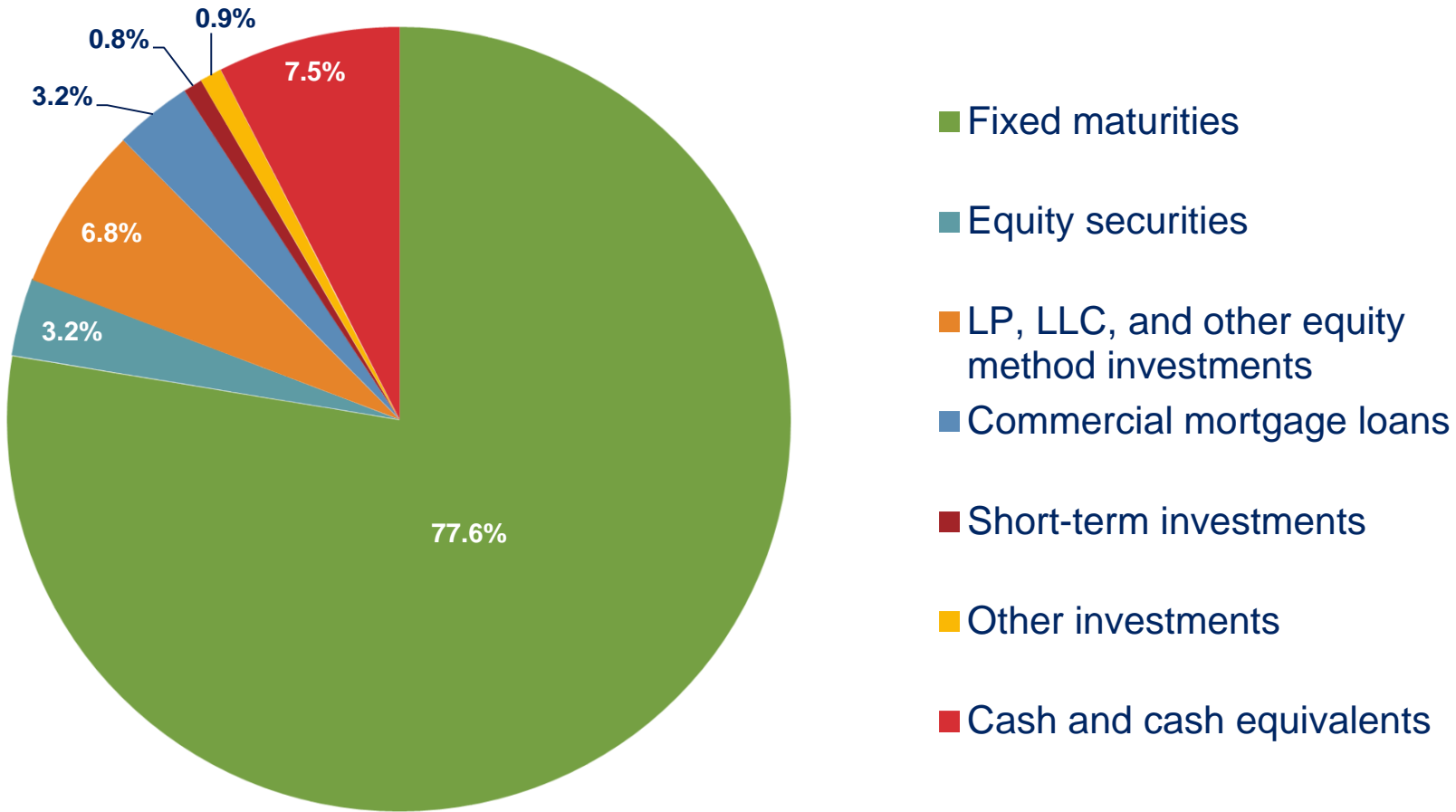
# Net Investment Income

(\$ Millions)

■ LP, LLC, and other equity method investments



# Investment Mix



Total invested assets as of  
March 31, 2017: **\$83.520 Billion**

# Capitalization

(\$ Millions)	March 31, 2017	December 31, 2016
Long-term debt	\$8,146	\$7,603
Adjusted debt <sup>1</sup>	\$7,146	\$6,603
Total equity	\$21,014	\$20,387
Less: AOCI	<u>(\$1,030)</u>	<u>(\$1,304)</u>
Total equity ex. AOCI	\$22,044	\$21,691
Total capital ex. AOCI	\$30,190	\$29,294
<i>Adjusted debt-to-total capitalization (ex. AOCI)</i>	23.7%	22.5%
Statutory surplus	\$19,623	\$19,582

<sup>1</sup> Assumes that the Series A and B Junior Subordinated Notes receive 100% equity credit, as per S&P.

# Energy-Related Investments

(\$ Millions)	As of March 31, 2017			Change since December 31, 2016	
	Carrying Value	Unfunded Commitments	Average Credit Rating	Carrying Value	Unfunded Commitments
Investment grade bonds	\$2,367	\$ -	A-	\$96	\$ -
Below investment grade bonds	322	-	B+	(11)	-
Publicly traded equity securities	198	-		(1)	-
Private equities – energy focused	457 <sup>1</sup>	495		71	(68)
	<b>\$3,344</b>	<b>\$495</b>		<b>\$155</b>	<b>(\$68)</b>
Percent of total invested assets	4.0%				
Direct investment in oil & gas wells	\$1,127	\$71		(\$61)	(\$18)
<b>Total exposure</b>	<b>\$4,471</b>	<b>\$566<sup>2</sup></b>		<b>\$94</b>	<b>(\$86)</b>

<sup>1</sup> Includes Carrying Values of \$455 million of natural resources partnership and \$2 million of equity method investments (carried at fair value and reported in "Other investments").

<sup>2</sup> Energy commitments declined \$86 million in the quarter, primarily due to net contributions of \$70 million related to energy partnerships.

# Holding Company Interest Coverage

(\$ millions)	
Preferred dividends	\$80
Remaining dividend capacity	<u>\$1,837</u>
2017 dividend capacity <sup>1</sup>	\$1,917
Estimated PTI from LMG service companies/fees	<u>\$395</u>
Total available funding	\$2,312
Interest expense <sup>2</sup>	\$383
<b>Holding company interest coverage</b>	<b>6.0x</b>

<sup>1</sup> Represents the estimated maximum allowable dividend without prior regulatory approval in the state of domicile. Dividends paid April 1, 2016 through March 31, 2017 were \$83 million. Remaining/available dividend capacity is calculated as 2017 dividend capacity less dividends paid for the preceding twelve months.

<sup>2</sup> Represents the 2017 Plan for debt expense at Liberty Mutual Group Inc.



# Reconciliation of Statement of Income to Combined Ratio

For the three months ended March 31, 2017					\$ Millions
Combined ratio components:	Statement of income	Presentation reclass <sup>1</sup>	Less: Life insurance <sup>2</sup>	Less: Non-underwriting expenses and other adjustments <sup>3</sup>	Combined Ratio
Premiums earned	\$8,895		(\$559)	-	\$8,336
Benefits, claims and claim adjustment expenses	6,544		(575)	(2)	5,967
Operating costs and expenses	1,640	(5)	(136)	(225)	1,274
Amortization of deferred policy acquisition costs	1,238		(23)	-	1,215
Dividends to policyholders	N/A	5	(2)	-	3
<b>Total combined ratio</b>					<b>101.5%</b>

For the three months ended March 31, 2016					\$ Millions
Combined ratio components:	Statement of income	Presentation reclass <sup>1</sup>	Less: Life insurance <sup>2</sup>	Less: Non-underwriting expenses and other adjustments <sup>3</sup>	Combined Ratio
Premiums earned	\$8,464		(\$445)	-	\$8,019
Benefits, claims and claim adjustment expenses	5,731		(465)	(2)	5,264
Operating costs and expenses	1,587	(6)	(114)	(261)	1,206
Amortization of deferred policy acquisition costs	1,270		(21)	(1)	1,248
Dividends to policyholders	N/A	6	(2)	-	4
<b>Total combined ratio</b>					<b>96.3%</b>

<sup>1</sup> Dividends to policyholders.

<sup>2</sup> Life and annuity business excluded from P&C combined ratio.

<sup>3</sup> Includes adjustments for non-underwriting expenses primarily related to the Company's energy production and service operations, fee income, and installment charges

## Q1 2017 Significant Events:

- ❖ On March 27, 2017, Liberty Mutual Finance Europe DAC issued €500 million par value of Senior Notes due 2024 (the “2024 Notes”). Interest is payable annually at a fixed rate of 1.75%. The 2024 Notes mature on March 27, 2024.
- ❖ On February 27, 2017, the United Kingdom’s Ministry of Justice announced a reduction in the discount rate utilized for certain lump sum personal injury compensation claims from 2.5% to (.75%) effective March 20, 2017. The Company’s reserve estimation process provided for the impact of a range of events such as this.
- ❖ On January 5, 2017, the Company completed the sale of its 10 St. James and 75 Arlington properties. The sale resulted in a gain of \$297 million, of which \$188 million was deferred over the terms of the lease and \$109 million was recognized in the Consolidated Statements of Income. The Company has entered into a sale lease back agreement which extends over 15 years resulting in a net lease obligation of \$258 million.

## Subsequent Events:

- ❖ On May 1, 2017, the Company acquired Ironshore for approximately \$2.9 billion subject to standard post-closing adjustments. Transaction related costs primarily consist of non-recurring banking, legal, tax, and accounting expenses and are reflected on the Consolidated Statements of Income separately. Concurrent with the acquisition, the Company will combine its existing Liberty International Underwriters’ U.S. business and Ironshore’s U.S. specialty lines business under the Ironshore brand. On May 2, 2017, Ironshore exercised its option to redeem in full its outstanding \$250 million Ironshore Holdings (US) Inc. 8.5% Senior Notes maturing in 2020 in accordance with the contractual make whole provisions.
- ❖ On April 17, 2017, the Company completed the acquisition of TRU Services, LLC, specializing in providing medical stop loss products to mid and large-size medical plan sponsors. The transaction is not material to the Company.

Please refer to Management’s Discussion & Analysis (MD&A) of Financial Condition and Results of Operations for further detail.

# About Liberty Mutual Insurance

Boston-based LMHC, the parent corporation of the Liberty Mutual Insurance group of entities, is a diversified global insurer and fourth largest property and casualty insurer in the U.S. based on 2016 direct written premium. The Company also ranks 73rd on the Fortune 100 list of largest corporations in the U.S. based on 2015 revenue. As of December 31, 2016, LMHC had \$125.592 billion in consolidated assets, \$105.205 billion in consolidated liabilities, and \$38.308 billion in annual consolidated revenue.

LMHC, through its subsidiaries and affiliated companies, offers a wide range of property and casualty insurance products and services to individuals and businesses alike. In 2001 and 2002, the Company formed a mutual holding company structure, whereby the three principal mutual insurance companies, Liberty Mutual Insurance Company, Liberty Mutual Fire Insurance Company and Employers Insurance Company of Wausau, each became separate stock insurance companies under the ownership of LMHC.

Functionally, the Company conducts substantially all of its business through the SBUs, with each operating independently of the others with dedicated sales, underwriting, claims, actuarial, financial and certain information technology resources. Management believes this structure allows each business unit to execute its business strategy and/or to make acquisitions without impacting or disrupting the operations of the Company's other business units.

LMHC employs more than 50,000 people in over 800 offices throughout the world. For a full description of the Company's business operations, products and distribution channels, please visit Liberty Mutual's Investor Relations web site at [www.libertymutualgroup.com/investors](http://www.libertymutualgroup.com/investors).

## Additional Notes

The Company's financial results, management's discussion and analysis of operating results and financial condition, accompanying financial statements and other supplemental financial information for the three months ended March 31, 2017 are available on the Company's Investor Relations website at <http://www.libertymutualgroup.com/investors>.

The Company's discussions related to net income are presented in conformity with U.S. generally accepted accounting principles ("GAAP") on an after-tax basis. All other discussions are presented on a pre-tax GAAP basis, unless otherwise noted. Further, the Company notes that it may make material information regarding the Company available to the public, from time to time, via the Company's Investor Relations website at <http://www.libertymutualgroup.com/investors> (or any successor site).

The Company's annual audited financial statements and the Report of Independent Registered Public Accounting Firm on the Effectiveness of Internal Control Over Financial Reporting are also published on the Company's Investor Relations website at <http://www.libertymutualgroup.com/investors>.



**Liberty Mutual<sup>®</sup>**

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**INSURANCE**