Liberty Mutual Insurance Reports First Quarter 2017 Results

BOSTON, Mass., May 4, 2017 – Liberty Mutual Holding Company Inc. and its subsidiaries (collectively "LMHC" or the "Company") today reported net income attributable to LMHC of $351 million for the three months ended March 31, 2017, a decrease of $42 million from the same period in 2016.

"Net income in the first quarter was $351 million, down 11 percent from the prior year as elevated severe wind and hail storm losses more than offset significant improvement in investment results," said David H. Long, Liberty Mutual Insurance Chairman and CEO. "Net written premiums in the quarter increased 5.3 percent but the combined ratio deteriorated 5.2 points to 101.5%."

First Quarter Highlights

- Net written premium ("NWP") for the three months ended March 31, 2017 was $9.234 billion, an increase of $462 million or 5.3% over the same period in 2016.

- Pre-tax operating income ("PTOI") before partnerships, limited liability companies ("LLC") and other equity method income for the three months ended March 31, 2017 was $168 million, a decrease of $446 million or 72.6% from the same period in 2016.

- Net operating income before partnerships, LLC and other equity method income for the three months ended March 31, 2017 was $144 million, a decrease of $271 million or 65.3% from the same period in 2016.

- Partnerships, LLC and other equity method income for the three months ended March 31, 2017 was $162 million, an increase of $139 million over the same period in 2016.

- Net realized gains (losses) for the three months ended March 31, 2017 were $169 million versus ($39) million for the same period in 2016.

- Ironshore Inc. ("Ironshore") acquisition costs for the three months ended March 31, 2017 were $10 million versus zero for the same period in 2016.

- Loss on extinguishment of debt for the three months ended March 31, 2017 was $1 million, a decrease of $7 million or 87.5% from the same period in 2016.

- Consolidated net income for the three months ended March 31, 2017 was $351 million, a decrease of $52 million or 12.9% from the same period in 2016.

- Net income attributable to LMHC for the three months ended March 31, 2017 was $351 million, a decrease of $42 million or 10.7% from the same period in 2016.

- Cash flow (used in) provided by operations for the three months ended March 31, 2017 was ($66) million versus $299 million for the same period in 2016.

- The consolidated combined ratio before catastrophes[1] and net incurred losses attributable to prior years[2] for the three months ended March 31, 2017 was 93.9%, an increase of 1.6 points over the same period in 2016. Including the impact of catastrophes and net incurred losses attributable to prior years, the Company's combined ratio[3] for the three months ended March 31, 2017 increased 5.2 points to 101.5%.

Financial Condition as of March 31, 2017

- Total debt was $8.146 billion as of March 31, 2017, an increase of $543 million or 7.1% over December 31, 2016.

- Total equity was $21.014 billion as of March 31, 2017, an increase of $627 million or 3.1% over December 31, 2016.

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.

Management has assessed material subsequent events through May 4, 2017, the date the financial statements were available to be issued.

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1 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.

2 Net incurred losses attributable to prior years is defined as incurred losses attributable to prior years (including prior year losses related to catastrophes and prior year catastrophe reinstatement premium) including earned premium attributable to prior years.

3 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.

Consolidated Net Operating Income

	Three Months Ended March 31,		
$ in Millions	**2017**	**2016**	**Change**
Net operating income before partnerships, LLC and other equity method income	$144	$415	(65.3%)
Partnerships, LLC and other equity method income, net of tax	105	18	NM
Net realized gains (losses), net of tax	110	(25)	NM
Ironshore acquisition costs, net of tax	(7)	-	NM
Loss on extinguishment of debt, net of tax	(1)	(5)	(80.0)
Less: Net income attributable to non-controlling interest	-	10	(100.0)
Net income attributable to LMHC	$351	$393	(10.7%)

NM = Not Meaningful

Consolidated Results of Operations

	Three Months Ended March 31,		
$ in Millions	**2017**	**2016**	**Change**
Revenues	$10,097	$9,362	7.9%
PTOI before catastrophes, net incurred losses attributable to prior years, and partnerships, LLC and other equity method income	$801	$941	(14.9%)
Catastrophes[1]	(639)	(381)	67.7
Net incurred losses attributable to prior years:			
- Asbestos and environmental[2]	(4)	-	NM
- All other[2,3]	10	54	(81.5)
PTOI before partnerships, LLC and other equity method income	168	614	(72.6)
Partnerships, LLC and other equity method income[4]	162	23	NM
PTOI	330	637	(48.2)
Net realized gains (losses)	169	(39)	NM
Ironshore acquisition costs	(10)	-	NM
Loss on extinguishment of debt	(1)	(8)	(87.5)
Pre-tax income	488	590	(17.3)
Income tax expense	137	187	(26.7)
Consolidated net income	351	403	(12.9)
Less: Net income attributable to non-controlling interest	-	10	(100.0)
Net income attributable to LMHC	$351	$393	(10.7%)
Cash flow provided by operations before pension contributions	$335	$400	(16.3%)
Pension contributions	(401)	(101)	NM
Cash flow (used in) provided by operations	($66)	$299	NM

1 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.

2 Asbestos and environmental is gross of the related adverse development cover (the "NICO Reinsurance Transaction"), and All other includes all cessions related to the NICO Reinsurance Transaction.

3 Net of earned premium and reinstatement premium attributable to prior years of $3 million and $1 million for the three months ended March 31, 2017 and 2016, respectively.

4 Partnerships, LLC and other equity method income includes limited partnerships ("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

Financial Information: 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 web site at www.libertymutualgroup.com/investors.

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.

Cautionary Statement Regarding Forward Looking Statements

This report contains forward looking statements that are intended to enhance the reader's ability to assess the Company's future financial and business performance. 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 LPs, LLCs, 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 claimspaying 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 cyclicality 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. The Company undertakes no obligation to update these forward looking statements.

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