Liberty Mutual Group Reports Second Quarter 2009 Results

BOSTON, Mass., July 28, 2009 – Liberty Mutual Group ("LMG" or the "Company") today reported net income of $274 million for the three months ended June 30, 2009, a decrease of $26 million from the same period in 2008. Net income excluding private equity (loss) income was $287 million in the quarter versus $262 million in the prior year.

"We are pleased with our operating results," said Edmund F. Kelly, Chairman, President and CEO of Liberty Mutual Group Inc. "Our results reflect disciplined underwriting and pricing in a price sensitive global insurance market."

Second Quarter Highlights

- Revenues for the three months ended June 30, 2009 were $7.830 billion, an increase of $882 million or 12.7% over the same period in 2008.
- Net written premium for the three months ended June 30, 2009 was $6.904 billion, an increase of $625 million or 10.0% over the same period in 2008.
- Pre-tax operating income before private equity (loss) income for the three months ended June 30, 2009 was $427 million, an increase of $78 million or 22.3% over the same period in 2008.
- Pre-tax operating income for the three months ended June 30, 2009 was $407 million, consistent with the same period in 2008.
- Net income for the three months ended June 30, 2009 was $274 million, a decrease of $26 million or 8.7% from the same period in 2008.
- Cash flow from operations for the three months ended June 30, 2009 was $603 million, a decrease of $476 million or 44.1% from the same period in 2008.
- The combined ratio before catastrophes[1] and net incurred losses attributable to prior years[2] for the three months ended June 30, 2009 was 98.8%, an increase of 0.8 points over the same period in 2008. Including the impact of catastrophes and net incurred losses attributable to prior years, the Company's combined ratio for the three months ended June 30, 2009 decreased 1.7 points to 100.2%.

Year-to-Date Highlights

- Revenues for the six months ended June 30, 2009 were $15.236 billion, an increase of $1.403 billion or 10.1% over the same period in 2008.
- Net written premium for the six months ended June 30, 2009 was $13.932 billion, an increase of $1.397 billion or 11.1% over the same period in 2008.
- Pre-tax operating income before private equity (loss) income for the six months ended June 30, 2009 was $831 million, an increase of $50 million or 6.4% over the same period in 2008.
- Pre-tax operating income for the six months ended June 30, 2009 was $438 million, a decrease of $461 million or 51.3% from the same period in 2008.

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[1] Catastrophes include all current and prior year catastrophe losses including assessments from the Texas Windstorm Insurance Association ("TWIA") and exclude losses related to the Company's external reinsurance assumed lines (assumed voluntary reinsurance and reinsurance assumed through Lloyd's Syndicate 4472) except for losses related to the events of September 11, 2001, the 2004 U.S. Hurricanes, the 2005 U.S. Hurricanes and the September 2008 Hurricanes. 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 (excluding prior year losses related to natural catastrophes and the events of September 11, 2001) including both earned premium attributable to prior years and amortization of retroactive reinsurance gains.

- Net income for the six months ended June 30, 2009 was $302 million, a decrease of $358 million or 54.2% from the same period in 2008.

- Cash flow from operations for the six months ended June 30, 2009 was $988 million, a decrease of $704 million or 41.6% from the same period in 2008.

- The combined ratio before catastrophes and net incurred losses attributable to prior years for the six months ended June 30, 2009 was 98.0%, a decrease of 0.5 points from the same period in 2008. Including the impact of catastrophes and net incurred losses attributable to prior years, the Company's combined ratio for the six months ended June 30, 2009 decreased 1.5 points to 99.8%.

Financial Condition as of June 30, 2009

- Total assets were $108.520 billion as of June 30, 2009, an increase of $4.204 billion over December 31, 2008.

- Policyholders' equity was $11.845 billion as of June 30, 2009, an increase of $1.685 billion over December 31, 2008.

Consolidated Results of Operations for the Three and Six Months Ended June 30, 2009:

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2009**	**2008**	**Change**	**2009**	**2008**	**Change**
Revenues	$7,830	$6,948	12.7%	$15,236	$13,833	10.1%
PTOI before catastrophes, net incurred losses attributable to prior years and private equity (loss) income	$522	$574	(9.1)	$1,069	$1,097	(2.6)
Catastrophes[1]:						
-September 2008 Hurricanes	(8)	-	NM	(14)	-	NM
-All other[2]	(245)	(313)	(21.7)	(565)	(479)	18.0
Net incurred losses attributable to prior years:						
- Asbestos & environmental[3]	(2)	(4)	(50.0)	(3)	(4)	(25.0)
- All other[4]	160	92	73.9	344	167	106.0
Pre-tax operating income before private equity (loss) income	427	349	22.3	831	781	6.4
Private equity (loss) income[5]	(20)	58	NM	(393)	118	NM
Pre-tax operating income	407	407	-	438	899	(51.3)
Realized (losses) gains, net	(27)	5	NM	(21)	(7)	200.0
Federal and foreign income tax expense	(106)	(112)	(5.4)	(115)	(232)	(50.4)
Net income	$274	$300	(8.7%)	$302	$660	(54.2%)
Cash flow from operations	$603	$1,079	(44.1%)	$988	$1,692	(41.6%)

1 Catastrophes include all current and prior year catastrophe losses including assessments from TWIA and exclude losses related to the Company's external reinsurance assumed lines (assumed voluntary reinsurance and reinsurance assumed through Lloyd's Syndicate 4472) except for losses related to the events of September 11, 2001, the 2004 U.S. Hurricanes, the 2005 U.S. Hurricanes and the September 2008 Hurricanes. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

2 Catastrophe losses ceded under the homeowners quota share treaty are included to the extent that the ceded combined ratio exceeds 100.0%.

3 Net of allowance for uncollectible reinsurance reduction of zero for the three and six months ended June 30, 2009, and $3 million for the comparable periods of 2008.

4 Net of earned premium attributable to prior years of $1 million and $2 million for the three and six months ended June 30, 2009, and ($6) million and ($3) million for the comparable periods of 2008. Net of amortization of deferred gains on retroactive reinsurance of $17 million and $35 million for the three and six months ended June 30, 2009, and $19 million and $36 million for the comparable periods of 2008.

5 Private equity (loss) income is included in net investment income in the accompanying statements of income.

NM = Not Meaningful

Financial Information: Liberty Mutual Group'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 and six months ended June 30, 2009 are available on the Company's Investor Relations web site at www.libertymutual.com/investors.

Conference Call Information: At 11:00 a.m. EST today, Edmund F. Kelly, Liberty Mutual Group Chairman, President and CEO, will host a conference call to discuss the Company's financial results. To listen to the call and participate in the Q&A, please dial 800-857-2190 fifteen minutes before the starting time, providing the pass code "Liberty" when prompted. A replay will be available until 5:00 p.m. on August 4, 2009 at 800-294-4350.

About Liberty Mutual Group

Boston-based Liberty Mutual Holding Company Inc., the parent corporation of the Liberty Mutual Group of entities ("LMG" or the "Company"), is a diversified global insurer and fifth largest property and casualty insurer in the U.S. based on 2008 direct written premium. The Company also ranks 86^{th} on the Fortune 500 list of largest corporations in the United States based on 2008 revenue. As of December 31, 2008, LMG had \$104.316 billion in consolidated assets, \$94.156 billion in consolidated liabilities, and \$28.855 billion in annual consolidated revenue.

LMG, through its subsidiaries and affiliated companies, offers a wide range of property-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 Liberty Mutual Holding Company Inc.

Functionally, the Company conducts substantially all of its business through four strategic business units: Personal Markets, Commercial Markets, Agency Markets and International. Each business unit operates independently of the others and has 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.

LMG employs more than 47,000 people in more than 900 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.libertymutual.com/investors.

Forward Looking Statements

This press release contains forward looking statements concerning the Company's future financial and business performance. Forward looking statements 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.

In particular, the sufficiency of the Company's reserves for (i) asbestos, (ii) environmental ((i) and (ii) together "A&E"), and (iii) toxic tort (i.e., claims that arise primarily from exposure to chemical or other potentially hazardous products or substances, including welding rod, lead paint and silica related claims), as well as its results of operations, financial condition and liquidity, to the extent impacted by the sufficiency of the Company's A&E and toxic tort reserves, are subject to a number of potential adverse developments including adverse developments involving A&E and toxic tort claims and the related level and outcome of litigation, the willingness of parties, including the Company, to settle disputes, the interpretation of aggregate policy coverage limits, the Company's ability to recover reinsurance for A&E, toxic tort and other claims, the legal, economic, regulatory, and legislative environments, and their impact on the future development of A&E and toxic tort claims, and the impact of bankruptcies of various asbestos producers and related peripheral businesses.

Some of the other factors that could cause actual results to differ include, but are not limited to, the following: the Company's inability to obtain price increases or maintain market share due to competition or otherwise; the performance of the Company's investment portfolio, which could suffer reduced returns or losses adversely affecting the Company's profitability, capitalization and liquidity; market conditions that may limit the Company's ability to replace maturing liabilities in a timely manner or that may make it difficult to value the Company's investments; developments in U.S. and global financial and capital markets, including changes in interest rates, rates of inflation, credit spreads, equity prices and foreign exchange rates; losses due to defaults of individual issuers and defaults of the collateral backing certain investments; recessionary U.S. and global economic conditions, which could adversely affect the Company's ability to grow its business profitably; the potential effect of legislation and other governmental initiatives taken in response to stress in financial markets and economic conditions; insufficiency of, or changes in, loss reserves; the occurrence of catastrophic events, both natural and man-made, including terrorist acts, with a severity or frequency exceeding the Company's expectations; adverse changes in loss cost trends, including inflationary pressures in medical costs and automobile and home repair costs; developments relating to coverage and liability for mold claims; the effects of corporate bankruptcies; adverse developments in the cost, availability and/or ability to collect reinsurance, which may be adversely affected by current economic conditions; the Company's ability to successfully integrate operations, personnel and technology from its acquisitions, including the acquisition of Safeco Corporation ("Safeco") and its subsidiaries; the ability of the Company's subsidiaries to pay dividends to the Company; adverse results or other consequences from legal proceedings; the impact of regulatory investigations or reforms, including governmental actions regarding the compensation of brokers and agents and the purchase and sale of nontraditional products and related disclosures; unusual loss activity resulting from adverse weather conditions, including hurricanes, hail, tornados, snowfall and winter conditions; repatriation of foreign earnings; judicial expansion of policy coverage and the impact of new theories of liability; the impact of legislative actions, including proposed Federal legislation related to natural catastrophe funds and financial services regulation reform; larger than expected assessments for guaranty funds and mandatory pooling arrangements; a downgrade in the Company's claims-paying and financial strength ratings, which could adversely affect its business volumes, adversely affect its ability to access the debt markets and increase its borrowing costs; the loss or significant restriction on the Company's ability to use credit scoring in the pricing and underwriting of Personal Lines policies; and changes to the risk-based capital requirements. 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 web site at www.libertymutual.com/investors.

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