Liberty Mutual Insurance Reports Second Quarter 2012 Results

BOSTON, Mass., July 25, 2012 – Liberty Mutual Holding Company Inc. and its subsidiaries (collectively "LMHC" or the "Company") today reported net income of $139 million and $598 million for the three and six months ended June 30, 2012, increases of $318 million and $413 million over the same periods in 2011.

"Second quarter premium growth of 8% was driven by continued momentum in U.S. personal lines, rate increases in U.S. commercial lines, and robust international results despite significant strengthening of the dollar," said David H. Long, President and CEO of Liberty Mutual Insurance. "Additionally our profitability improved significantly in the quarter despite catastrophe losses continuing to run at an elevated level. The quarter was a busy one, including a significant debt restructuring, the sale of our Argentina workers compensation company, assimilation of KIT in Russia, and gaining approval to begin writing business in India."

Second Quarter Highlights

- Revenues for the three months ended June 30, 2012 were $9.157 billion, an increase of $597 million or 7.0% over the same period in 2011.
- Net written premium ("NWP") for the three months ended June 30, 2012 was $8.335 billion, an increase of $633 million or 8.2% over the same period in 2011.
- Pre-tax operating income ("PTOI") before private limited partnership ("LP") and limited liability company ("LLC") income for the three months ended June 30, 2012 was $48 million versus $398 million of pre-tax operating loss before LP and LLC income in the same period in 2011.
- PTOI for the three months ended June 30, 2012 was $139 million versus $270 million of pre-tax operating loss in the same period in 2011.
- Loss on extinguishment of debt for the three months ended June 30, 2012 was $148 million, an increase of $108 million over the same period in 2011. $798 million of debt with a weighted average interest rate of 8.03% was repurchased in the quarter and $1.000 billion of senior debt was issued with a weighted average interest rate of 5.73%.
- Net income attributable to LMHC for the three months ended June 30, 2012 was $139 million versus $179 million of net loss attributable to LMHC in the same period in 2011.
- Cash flow from operations for the three months ended June 30, 2012 was $574 million, an increase of $259 million or 82.2% over the same period in 2011.
- The consolidated combined ratio before catastrophes[1], net incurred losses attributable to prior years[2] and current accident year re-estimation[3] for the three months ended June 30, 2012 was 97.4%, an increase of 2.9 points over the same period in 2011. Including the impact of catastrophes, net incurred losses attributable to prior years and current accident year re-estimation, the Company's combined ratio for the three months ended June 30, 2012 decreased 6.6 points to 105.9%.

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[1]Catastrophes include all current and prior accident year catastrophe losses incurred excluding losses related to the Company's external reinsurance assumed lines except for the 2011 Australia floods, Cyclone Yasi, Japan earthquake and tsunami, New Zealand earthquakes, Hurricane Irene, Thailand floods and the 2011 tornadoes and other severe storms in the U.S. 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) including both earned premium attributable to prior years and amortization of retroactive reinsurance gains.

[3]Re-estimation of the current accident year loss reserves for the three months ended March 31, 2012 and March 31, 2011.

Year-to-Date Highlights

- Revenues for the six months ended June 30, 2012 were $18.038 billion, an increase of $1.097 billion or 6.5% over the same period in 2011.
- NWP for the six months ended June 30, 2012 was $16.413 billion, an increase of $1.062 billion or 6.9% over the same period in 2011.
- PTOI before LP and LLC income for the six months ended June 30, 2012 was $504 million versus $161 million of pre-tax operating loss before LP and LLC income in the same period in 2011.
- PTOI for the six months ended June 30, 2012 was $716 million, an increase of $539 million over the same period in 2011.
- Loss on extinguishment of debt for the six months ended June 30, 2012 was $163 million, an increase of $123 million over the same period in 2011. $837 million of debt with a weighted average interest rate of 8.16% was repurchased year-to-date and $1.000 billion of senior debt was issued with a weighted average interest rate of 5.73%.
- Net income attributable to LMHC for the six months ended June 30, 2012 was $598 million, an increase of $413 million over the same period in 2011.
- Cash flow from operations for the six months ended June 30, 2012 was $1.225 billion, an increase of $288 million or 30.7% over the same period in 2011.
- The consolidated combined ratio before catastrophes and net incurred losses attributable to prior years for the six months ended June 30, 2012 was 96.8%, an increase of 1.1 points over the same period in 2011. 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, 2012 decreased 4.1 points to 103.4%.

Financial Condition as of June 30, 2012

- Total assets were $116.767 billion as of June 30, 2012, a decrease of $84 million from December 31, 2011.
- Total equity was $18.593 billion as of June 30, 2012, an increase of $994 million over December 31, 2011.

Consolidated Results of Operations for the Three and Six Months Ended June 30, 2012 and 2011:

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2012**	**2011**	**Change**	**2012**	**2011**	**Change**
Revenues	$9,157	$8,560	7.0%	$18,038	$16,941	6.5%
PTOI before catastrophes, net incurred losses attributable to prior years, current accident year re-estimation and LP and LLC income	$678	$862	(21.3%)	$1,453	$1,469	(1.1%)
Catastrophes[1]	(651)	(1,263)	(48.5)	(972)	(1,851)	(47.5)
Net incurred losses attributable to prior years:						
- Asbestos & environmental	(2)	(1)	100.0	(4)	(2)	100.0
- All other[2]	41	13	NM	27	223	(87.9)
Current accident year re-estimation[3]	(18)	(9)	100.0	-	-	-
Pre-tax operating income (loss) before LP and LLC income	48	(398)	NM	504	(161)	NM
LP and LLC income[4]	91	128	(28.9)	212	338	(37.3)
Pre-tax operating income (loss)	139	(270)	NM	716	177	NM
Net realized gains	172	51	NM	221	127	74.0
Loss on extinguishment of debt	(148)	(40)	NM	(163)	(40)	NM
Pre-tax income (loss)	163	(259)	NM	774	264	193.2
Income tax (expense) /benefit	(28)	80	NM	(183)	(76)	140.8
Consolidated net income (loss)	135	(179)	NM	591	188	NM
Less: Net (loss) income attributable to non-controlling interest	(4)	-	NM	(7)	3	NM
Net income (loss) attributable to LMHC	$139	($179)	NM	$598	$185	NM
Cash flow from operations	$574	$315	82.2%	$1,225	$937	30.7%

1 Catastrophes include all current and prior accident year catastrophe losses incurred excluding losses related to the Company's external reinsurance assumed lines except for the 2011 Australia floods, Cyclone Yasi, Japan earthquake and tsunami, New Zealand earthquakes, Hurricane Irene, Thailand floods and the 2011 tornadoes and other severe storms in the U.S. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

2 Net of earned premium attributable to prior years of $19 million and $33 million for the three and six months ended June 30, 2012 and $9 million and $16 million for the same periods in 2011. Net of amortization of deferred gains on retroactive reinsurance of $10 million and $21 million for the three and six months ended June 30, 2012 and $14 million and $113 million for the same periods in 2011. 2011 reflects a gain on commutation of two retroactive reinsurance contracts during the first quarter.

3 Re-estimation of the current accident year loss reserves for the three months ended March 31, 2012 and March 31, 2011.

4 LP and LLC income is included in net investment income in the accompanying consolidated statements of income.

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 and six months ended June 30, 2012 are available on the Company's Investor Relations web site at www.libertymutual.com/investors.

Conference Call Information: At 11:00 a.m. EDT today, David Long, Liberty Mutual Insurance 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, providing the pass code "Liberty" when prompted. A replay will be available until 5:00 p.m. on August 1, 2012 at 800-934-9450.

About Liberty Mutual Insurance

Boston-based LMHC, the parent corporation of the Liberty Mutual Insurance group of entities, is a diversified global insurer and third largest property and casualty insurer in the U.S. based on 2011 direct written premium. The Company also ranks 84th on the Fortune 100 list of largest corporations in the United States based on 2011 revenue. As of December 31, 2011, LMHC had $116.851 billion in consolidated assets, $99.252 billion in consolidated liabilities, and $34.671 billion in annual consolidated revenue.

LMHC, 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 LMHC.

Functionally, the Company conducts substantially all of its business through strategic business units, 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 45,000 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.

Cautionary Statement Regarding Forward Looking Statements

This press release 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, tornadoes, 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 and LLCs; 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; terrorist acts; 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 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.libertymutual.com/investors. The Company undertakes no obligation to update these forward looking statements.

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