Liberty Mutual Insurance Reports Third Quarter 2012 Results

BOSTON, Mass., October 30, 2012 – Liberty Mutual Holding Company Inc. and its subsidiaries (collectively "LMHC" or the "Company") today reported net income of $465 million and $1.1 billion for the three and nine months ended September 30, 2012, increases of $577 million and $990 million over the same periods in 2011.

"Improved core operating results along with modest catastrophe losses led to much improved net income of $465 million in the quarter," said David H. Long, President and CEO of Liberty Mutual Insurance. "Growth remained robust at 6%, with positive real growth where we targeted – personal lines and international – and contraction in underpriced commercial business. Positive price momentum exists across most lines with the magnitude of increases targeted to where it is needed most, workers compensation and property. This pricing trend will continue given the persistent low yield environment."

Third Quarter Highlights

- Revenues for the three months ended September 30, 2012 were $9.278 billion, an increase of $511 million or 5.8% over the same period in 2011.
- Net written premium ("NWP") for the three months ended September 30, 2012 was $8.651 billion, an increase of $515 million or 6.3% 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 September 30, 2012 was $469 million versus a pre-tax operating loss before LP and LLC income of $340 million in the same period in 2011.
- PTOI for the three months ended September 30, 2012 was $511 million versus a pre-tax operating loss of $202 million in the same period in 2011.
- Loss on extinguishment of debt for the three months ended September 30, 2012 was zero versus $37 million in the same period in 2011. No debt was repurchased in the quarter, $500 million of senior debt was issued with a weighted average interest rate of 5.73%, and $204 million of debt matured.
- Net income attributable to LMHC for the three months ended September 30, 2012 was $465 million versus a $112 million net loss attributable to LMHC in the same period in 2011.
- Cash flow from operations for the three months ended September 30, 2012 was $1.019 billion, an increase of $434 million or 74.2% 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 September 30, 2012 was 96.6%, a decrease of 1.4 points from 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 September 30, 2012 decreased 12.2 points to 98.5%.

[1]Catastrophes include all current and prior accident year catastrophe losses excluding losses related to the Company's external reinsurance assumed lines except for Hurricane Isaac, the 2011 Australia floods, Cyclone Yasi, Japan earthquake and tsunami, New Zealand earthquakes, Hurricane Irene, Thailand floods, the 2011 and 2012 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 six months ended June 30, 2012 and June 30, 2011.

Year-to-Date Highlights

- Revenues for the nine months ended September 30, 2012 were $27.316 billion, an increase of $1.608 billion or 6.3% over the same period in 2011.

- NWP for the nine months ended September 30, 2012 was $25.064 billion, an increase of $1.577 billion or 6.7% over the same period in 2011.

- PTOI before LP and LLC income for the nine months ended September 30, 2012 was $973 million versus $501 million of pre-tax operating loss before LP and LLC income in the same period in 2011.

- PTOI for the nine months ended September 30, 2012 was $1.227 billion versus $25 million of pre-tax operating loss in the same period in 2011.

- Loss on extinguishment of debt for the nine months ended September 30, 2012 was $163 million, an increase of $86 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, $1.500 billion of senior debt was issued with a weighted average interest rate of 5.73%, and $204 million of debt matured.

- Net income attributable to LMHC for the nine months ended September 30, 2012 was $1.063 billion, versus net income of $73 million in the same period in 2011, an increase of $990 million.

- Cash flow from operations for the nine months ended September 30, 2012 was $2.244 billion, an increase of $722 million or 47.4% over the same period in 2011.

- The consolidated combined ratio before catastrophes and net incurred losses attributable to prior years for the nine months ended September 30, 2012 was 96.9%, an increase of 0.1 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 nine months ended September 30, 2012 decreased 6.9 points to 101.7%.

Financial Condition as of September 30, 2012

- Total assets were $119.341 billion as of September 30, 2012, an increase of $2.490 billion over December 31, 2011.

- Total equity was $19.624 billion as of September 30, 2012, an increase of $2.025 billion over December 31, 2011.

Consolidated Results of Operations for the Three and Nine Months Ended September 30, 2012 and 2011:

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2012**	**2011**	**Change**	**2012**	**2011**	**Change**
Revenues	$9,278	$8,767	5.8%	$27,316	$25,708	6.3%
PTOI before catastrophes, net incurred losses attributable to prior years, current accident year re-estimation and LP and LLC income	$641	$568	12.9%	$2,042	$1,984	2.9%
Catastrophes[1]	(45)	(596)	(92.4)	(1,017)	(2,447)	(58.4)
Net incurred losses attributable to prior years:						
- Asbestos & environmental[2]	(53)	(339)	(84.4)	(57)	(341)	(83.3)
- All other[3]	(21)	76	NM	5	303	(98.3)
Current accident year re-estimation[4]	(53)	(49)	8.2	-	-	-
Pre-tax operating income (loss) before LP and LLC income	469	(340)	NM	973	(501)	NM
LP and LLC income[5]	42	138	(69.6)	254	476	(46.6)
Pre-tax operating income (loss)	511	(202)	NM	1,227	(25)	NM
Net realized gains	128	41	NM	349	168	107.7
SBU realignment expenses	(42)	-	NM	(42)	-	NM
Loss on extinguishment of debt	-	(37)	(100.0)	(163)	(77)	111.7
Pre-tax income (loss)	597	(198)	NM	1,371	66	NM
Income tax (expense) benefit	(132)	88	NM	(315)	12	NM
Consolidated net income (loss)	465	(110)	NM	1,056	78	NM
Less: Net income (loss) attributable to non-controlling interest	-	2	(100.0)	(7)	5	NM
Net income (loss) attributable to LMHC	$465	($112)	NM	$1,063	$73	NM
Cash flow from operations	$1,019	$585	74.2%	$2,244	$1,522	47.4%

1 Catastrophes include all current and prior accident year catastrophe losses excluding losses related to the Company's external reinsurance assumed lines except for Hurricane Isaac, the 2011 Australia floods, Cyclone Yasi, Japan earthquake and tsunami, New Zealand earthquakes, Hurricane Irene, Thailand floods, the 2011 and 2012 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 2011 includes $294 million of strengthening of asbestos related reserves in connection with a ground-up reserve study.

3 Net of earned premium attributable to prior years of $19 million and $52 million for the three and nine months ended September 30, 2012 and zero and $16 million for the same periods in 2011. Net of amortization of deferred gains on retroactive reinsurance of $11 million and $32 million for the three and nine months ended September 30, 2012 and $16 million and $129 million for the same periods in 2011. 2011 reflects a gain on commutation of two retroactive reinsurance contracts during the first quarter.

4 Re-estimation of the current accident year loss reserves for the six months ended June 30, 2012 and June 30, 2011.

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

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 nine months ended September 30, 2012 are available on the Company's Investor Relations web site at www.libertymutual.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 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 U.S. 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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