

## Liberty Mutual Insurance Reports Third Quarter 2014 Results

BOSTON, Mass., November 10, 2014 – Liberty Mutual Holding Company Inc. and its subsidiaries (collectively “LMHC” or the “Company”) today reported net income attributable to LMHC of \$609 million and \$1.274 billion for the three and nine months ended September 30, 2014, increases of \$128 million and \$27 million over the same periods in 2013. Including \$4 million and \$19 million of net losses attributable to non-controlling interest, consolidated net income for the three and nine months ended September 30, 2014 was \$605 million and \$1.255 billion, respectively.

“We had a solid third quarter, with net written premium growth of 2.8%, net income of \$609 million and an improvement of 2.4 points in the combined ratio,” said David H. Long, Liberty Mutual Insurance Chairman and CEO. “We also completed two significant capital-related transactions. We entered into a reinsurance agreement with National Indemnity Company, substantially mitigating the uncertainty of certain long-tail liabilities, and raised \$1.05 billion in debt. These transactions further strengthened the balance sheet and the overall financial position of the Company.”

### Third Quarter Highlights

- Revenues for the three months ended September 30, 2014 were \$10.085 billion, an increase of \$247 million or 2.5% over the same period in 2013.
- Net written premium (“NWP”) for the three months ended September 30, 2014 was \$9.450 billion, an increase of \$253 million or 2.8% over the same period in 2013.
- Pre-tax operating income (“PTOI”) for the three months ended September 30, 2014 was \$857 million, an increase of \$246 million or 40.3% over the same period in 2013.
- Catastrophe losses for the three months ended September 30, 2014 were \$288 million, a decrease of \$4 million or 1.4% from the same period in 2013.
- Limited partnership (“LP”) and limited liability company (“LLC”) income for the three months ended September 30, 2014 was \$221 million, an increase of \$133 million or 151.1% over the same period in 2013.
- Pre-tax gain associated with the Venezuela devaluation and foreign exchange under hyper inflationary accounting (including other-than-temporary-impairments) was \$48 million (PTOI) in 2014 compared to a pre-tax gain of \$52 million (PTOI) in the same period in 2013.
- Net income attributable to LMHC for the three months ended September 30, 2014 was \$609 million, an increase of \$128 million or 26.6% over the same period in 2013.
- During the quarter, the Company entered into a retroactive stop loss reinsurance agreement (the “NICO Reinsurance Transaction”) with National Indemnity Company (“NICO”). The NICO Reinsurance Transaction is accounted for as retroactive reinsurance in the Company’s GAAP consolidated financial statements and resulted in a pre-tax loss of approximately \$130 million as of the effective date, which is included in the third quarter results. Subsequent to the effective date, the Company recorded \$85 million of net asbestos and environmental (“A&E”) and workers compensation adverse development. As a result of the NICO Reinsurance Transaction, the Company was able to recognize the \$85 million as a benefit to income. See Consolidated Section for additional details of the transaction.
- The consolidated combined ratio before catastrophes<sup>1</sup>, net incurred losses attributable to prior years<sup>2</sup> and current accident year re-estimation for the three months ended September 30, 2014 was 92.3%, an improvement of 2.3 points over the same period in 2013. Including the impact of catastrophes, net incurred losses attributable to

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<sup>1</sup>Catastrophes include all current accident year catastrophe losses for severe storms in the U.S., U.K. and Ireland floods, Windstorm Ela, Cyclone Oswald, Central European floods, Alberta floods and German hailstorm. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

<sup>2</sup>Net incurred losses attributable to prior years is defined as incurred losses attributable to prior years (including prior year losses related to natural catastrophes and prior year catastrophe reinstatement premium) including both earned premium attributable to prior years and amortization of retroactive reinsurance gains.

prior years and current accident year re-estimation, the Company's combined ratio for the three months ended September 30, 2014 improved 2.4 points to 96.6%.

- Cash flow used in operations for the three months ended September 30, 2014 was \$1.428 billion, compared to cash provided of \$1.579 billion in the same period in 2013. The cash outflow includes approximately \$3.0 billion total consideration paid to fund the NICO Reinsurance Transaction.

#### **Year-to-Date Highlights**

- Revenues for the nine months ended September 30, 2014 were \$29.683 billion, an increase of \$1.240 billion or 4.4% over the same period in 2013.
- NWP for the nine months ended September 30, 2014 was \$27.418 billion, an increase of \$1.064 billion or 4.0% over the same period in 2013.
- PTOI for the nine months ended September 30, 2014 was \$2.070 billion, an increase of \$229 million or 12.4% over the same period in 2013.
- Catastrophe losses for the nine months ended September 30, 2014 were \$1.451 billion, an increase of \$290 million or 25.0% over the same period in 2013.
- LP and LLC income for the nine months ended September 30, 2014 was \$605 million, an increase of \$249 million or 69.9% over the same period in 2013.
- Pre-tax loss associated with the Venezuela devaluation and foreign exchange under hyper inflationary accounting (including other-than-temporary-impairments) was \$135 million (net of \$119 million of PTOI) in 2014 compared to a pre-tax loss of \$39 million (net of \$184 million of PTOI) in the same period in 2013.
- A net loss of \$77 million associated with the disposition of the Argentina operations is included within Discontinued Operations for the nine months ended September 30, 2014.
- Net income attributable to LMHC for the nine months ended September 30, 2014 was \$1.274 billion, an increase of \$27 million or 2.2% over the same period in 2013.
- The consolidated combined ratio before catastrophes and net incurred losses attributable to prior years for the nine months ended September 30, 2014 was 92.8%, an improvement of 1.8 points over the same period in 2013. 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, 2014 improved 0.7 points to 98.8%.
- Cash flow provided by operations for the nine months ended September 30, 2014 was \$68 million, a decrease of \$3.033 billion or 97.8% from the same period in 2013. The decrease reflects approximately \$3.0 billion total consideration paid to fund the NICO Reinsurance Transaction.

#### **Financial Condition as of September 30, 2014**

- Total assets were \$123.753 billion as of September 30, 2014, an increase of \$2.471 billion or 2.0% over December 31, 2013.
- Total equity was \$20.621 billion as of September 30, 2014, an increase of \$1.609 billion or 8.5% over December 31, 2013.

**Consolidated Results of Operations for the Three and Nine Months Ended September 30, 2014 and 2013:**

\$ in Millions	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	Change	2014	2013	Change
Revenues	\$10,085	\$9,838	2.5%	\$29,683	\$28,443	4.4%
PTOI before catastrophes, net incurred losses attributable to prior years, Venezuela devaluation and foreign exchange, current accident year re-estimation and LP and LLC income	\$954	\$821	16.2%	\$2,858	\$2,444	16.9%
Catastrophes <sup>1</sup>	(288)	(292)	(1.4)	(1,451)	(1,161)	25.0
Net incurred losses attributable to prior years:						
- Asbestos & environmental	(111)	(280)	(60.4)	(113)	(284)	(60.2)
- All other <sup>2</sup>	33	239	(86.2)	52	302	(82.8)
Venezuela devaluation and foreign exchange	48	52	(7.7)	119	184	(35.3)
Current accident year re-estimation <sup>3</sup>	-	(17)	(100.0)	-	-	-
PTOI before LP and LLC income	636	523	21.6	1,465	1,485	(1.3)
LP and LLC income <sup>4</sup>	221	88	151.1	605	356	69.9
PTOI	857	611	40.3	2,070	1,841	12.4
Net realized (losses) gains	(33)	80	NM	(192)	(54)	NM
SBU realignment expense	-	11	(100.0)	-	8	(100.0)
Loss on extinguishment of debt	(29)	(96)	(69.8)	(29)	(156)	(81.4)
Pre-tax income	795	606	31.2	1,849	1,639	12.8
Income tax expense	190	131	45.0	513	417	23.0
Consolidated net income before discontinued operations	605	475	27.4	1,336	1,222	9.3
Discontinued operations, net of tax	-	4	(100.0)	(81)	14	NM
Consolidated net income	605	479	26.3	1,255	1,236	1.5
Less: Net loss attributable to non-controlling interest	(4)	(2)	100.0	(19)	(11)	72.7
Net income attributable to LMHC	\$609	\$481	26.6%	\$1,274	\$1,247	2.2%
Cash flow (used in) provided by operations	(\$1,428)	\$1,579	NM	\$68	\$3,101	(97.8%)

1 Catastrophes include all current accident year catastrophe losses for severe storms in the U.S., U.K. and Ireland floods, Windstorm Ela, Cyclone Oswald, Central European floods, Alberta floods and German hailstorm. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

2 Net of earned premium and reinstatement premium attributable to prior years of (\$2) million and \$10 million for the three and nine months ended September 30, 2014 and \$93 million and \$205 million for the same periods in 2013. Net of amortization of deferred gains on retroactive reinsurance of \$1 million and \$3 million for the three and nine months ended September 30, 2014 and \$159 million and \$179 million for the same periods in 2013. Net of the impact of the NICO Reinsurance Transaction including the original loss of approximately \$130 million offset by the subsequent benefit of \$85 million.

3 Re-estimation of the current accident year loss reserves for the six months ended June 30, 2014 and 2013.

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 nine months ended September 30, 2014 are available on the Company's Investor Relations web site at [www.libertymutual.com/investors](http://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 2013 direct written premium. The Company also ranks 76<sup>th</sup> on the Fortune 100 list of largest corporations in the U.S. based on 2013 revenue. As of December 31, 2013, LMHC had \$121.282 billion in consolidated assets, \$102.270 billion in consolidated liabilities, and \$38.509 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 50,000 people in approximately 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](http://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, 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 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 cyclicity 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](http://www.libertymutual.com/investors). The Company undertakes no obligation to update these forward looking statements.

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