



**Liberty  
Mutual<sup>®</sup>**  

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**INSURANCE**

## Third Quarter 2014 Results

# 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 limited partnerships ("LP") and limited liability companies ("LLC"); 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.

# Liberty Mutual Overview

Mission statement: Helping people live safer, more secure lives



## Strategic Business Units (SBUs)

### Personal Insurance

- Personal Lines
- Safeco

### Commercial Insurance

- Business Insurance
- National Insurance
- Liberty Mutual Benefits (LMB)
- Other Commercial Insurance

### Liberty International

- Latin America & Iberia
- Emerging Europe
- Asia
- Large Emerging Markets

### Global Specialty

- Liberty Specialty Markets (LSM) - Syndicate 4472, Liberty Mutual Insurance Europe (LMIE), Liberty Mutual Reinsurance (LMR)
- Liberty International Underwriters (LIU)
- Liberty Mutual Surety (LM Surety)

- Mutual holding company structure
- \$121.3B of assets and \$38.5B of revenues in 2013
- The most diversified P&C insurer
- 76<sup>th</sup> among Fortune 500 companies<sup>1</sup>
- 3<sup>rd</sup> largest P&C writer in the U.S.<sup>2</sup>
- 3<sup>rd</sup> largest commercial lines writer in the U.S.<sup>2</sup>
- 6<sup>th</sup> largest personal lines writer in the U.S.<sup>2</sup>
- 6<sup>th</sup> largest global P&C insurer<sup>3</sup>

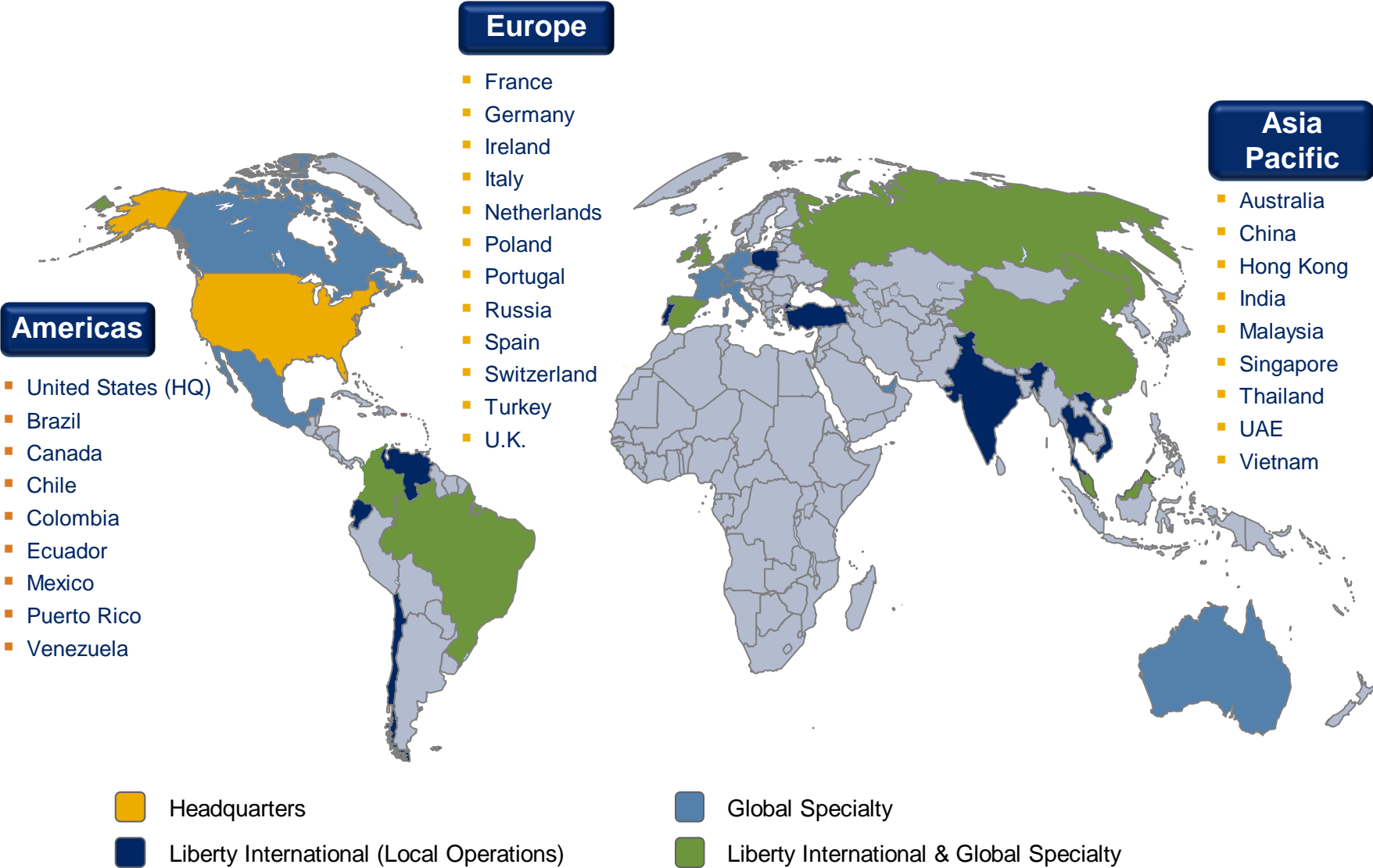
<sup>1</sup> Based on 2013 Revenue.

<sup>2</sup> Based on 2013 DWP.

<sup>3</sup> Based on 2013 GWP.

# Liberty Mutual's Global Presence

*LMIG operates in 30 countries and key markets around the globe*

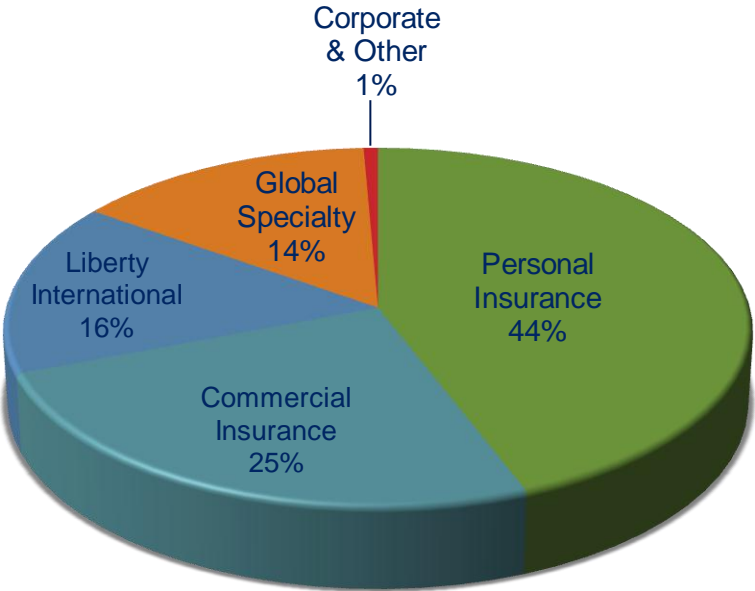


# Analysis of Consolidated Net Written Premium “NWP”

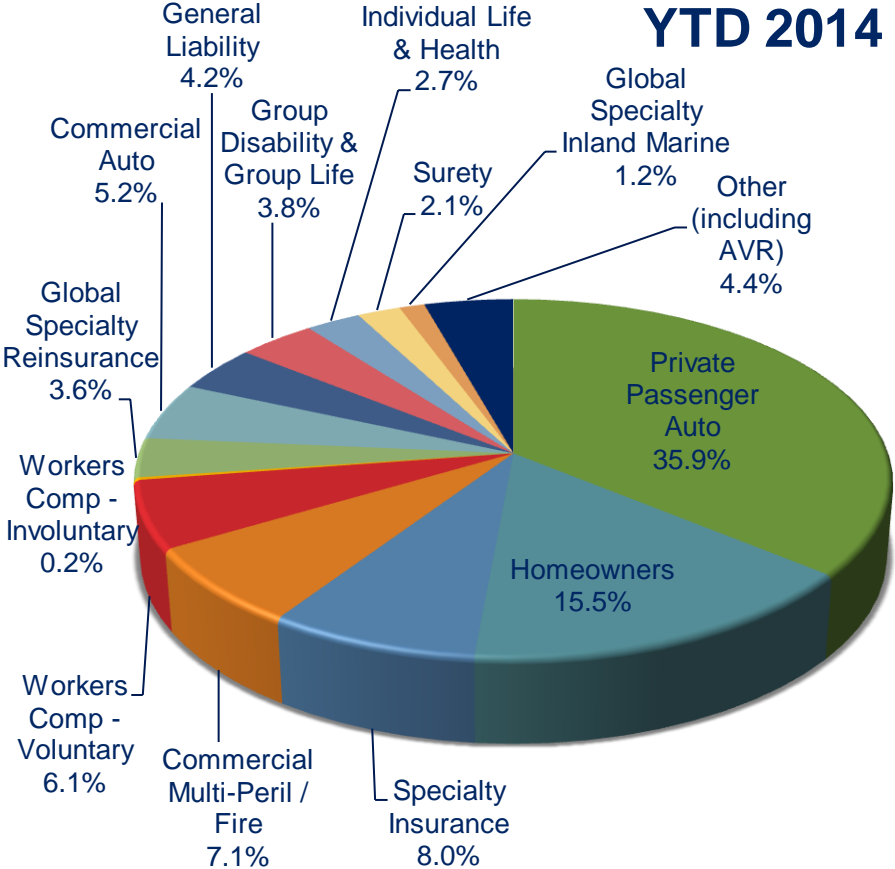
## NWP by SBU

## NWP by line of business

YTD 2014



YTD 2014



NWP of \$27.418 billion increased 4.0% over 2013.

# 2014 Highlights

## Third Quarter

- ❖ 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.
- ❖ LP and 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 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.
- ❖ The consolidated combined ratio before catastrophes, net incurred losses attributable to prior years 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 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

- ❖ 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.

# Consolidated Results

\$ millions	Third Quarter			Year-to-Date		
	2014 <sup>1</sup>	2013 <sup>1</sup>	Change	2014 <sup>1</sup>	2013 <sup>1</sup>	Change
<b>Revenues</b>	<b>\$10,085</b>	<b>\$9,838</b>	<b>2.5%</b>	<b>\$29,683</b>	<b>\$28,443</b>	<b>4.4%</b>
Pre-tax operating income before LP and LLC income	\$636	\$523	21.6%	\$1,465	\$1,485	(1.3%)
LP and LLC income <sup>2</sup>	221	88	151.1	605	356	69.9
<b>Pre-tax operating income</b>	<b>\$857</b>	<b>\$611</b>	<b>40.3%</b>	<b>\$2,070</b>	<b>\$1,841</b>	<b>12.4%</b>
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
<b>Net income attributable to LMHC</b>	<b>\$609</b>	<b>\$481</b>	<b>26.6%</b>	<b>\$1,274</b>	<b>\$1,247</b>	<b>2.2%</b>

## Combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation

Claims and claim adjustment expense ratio	61.2%	63.6%	(2.4)	62.1%	63.9%	(1.8)
Underwriting expense ratio	31.1	30.9	0.2	30.7	30.6	0.1
Dividend ratio	-	0.1	(0.1)	-	0.1	(0.1)
<b>Subtotal</b>	<b>92.3%</b>	<b>94.6%</b>	<b>(2.3)</b>	<b>92.8%</b>	<b>94.6%</b>	<b>(1.8)</b>
Catastrophes <sup>3</sup>	3.4	3.6	(0.2)	5.9	4.9	1.0
Net incurred losses attributable to prior years:						
- Asbestos & environmental	1.3	3.5	(2.2)	0.4	1.2	(0.8)
- All other <sup>4</sup>	(0.4)	(2.9)	2.5	(0.3)	(1.2)	0.9
Current accident year re-estimation <sup>5</sup>	-	0.2	(0.2)	-	-	-
<b>Total combined ratio<sup>6</sup></b>	<b>96.6%</b>	<b>99.0%</b>	<b>(2.4)</b>	<b>98.8%</b>	<b>99.5%</b>	<b>(0.7)</b>

<sup>1</sup> The combined ratio has been adjusted to exclude the impact of the Venezuela devaluation and foreign exchange.

<sup>2</sup> LP and LLC income is included in net investment income in the accompanying Consolidated Statements of Income.

<sup>3</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>4</sup> Net of earned premium and reinstatement premium attributable to prior years and amortization of deferred gains on assumed retroactive reinsurance.

<sup>5</sup> Re-estimation of the current accident year loss reserves for the six months ended June 30, 2014 and 2013.

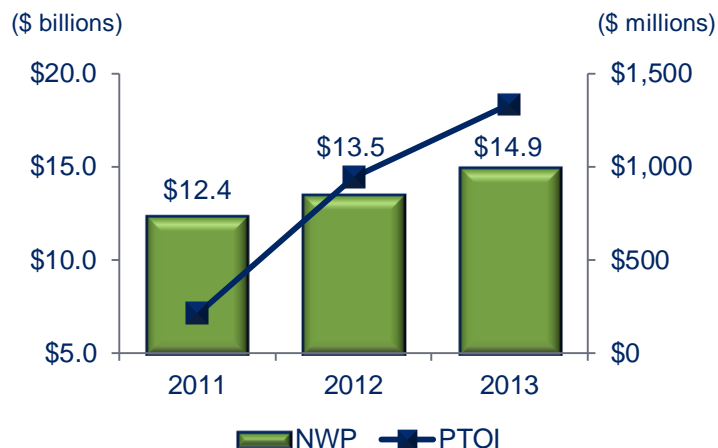
<sup>6</sup> The combined ratio, expressed as a percentage, is a measure of underwriting profitability. This measure should only be used in conjunction with, and not in lieu of, underwriting income and may not be comparable to other performance measures used by the Company's competitors. The combined ratio is computed as the sum of the following property and casualty ratios: the ratio of claims and claim adjustment expense less current and prior year managed care income to earned premium; the ratio to earned premium of insurance operating costs plus amortization of deferred policy acquisition costs less fee income (primarily related to the Company's involuntary market servicing carrier operations), and less installment charges; 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 an A&E commutation and certain other run off.

NM = Not Meaningful.



# Personal Insurance

## NWP & PTOI



## Segment Highlights

- Distributes through independent agent channel under the Safeco brand and through other channels under the Liberty Mutual brand
- 6th largest writer of personal lines in the U.S.<sup>1</sup>
- Highest growth rate among top 10 multi-line writers<sup>2</sup>
- Market leader in affinity marketing, with over 17,000 affinity relationships

<sup>1</sup> Based on 2013 DWP.

<sup>2</sup> Based on full year 2013 statutory DWP growth.

<sup>3</sup> Catastrophes include all current accident year catastrophe losses. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

<sup>4</sup> Re-estimation of the current accident year loss reserves for the six months ended June 30, 2014 and 2013.

NM = Not Meaningful

## Financial Performance

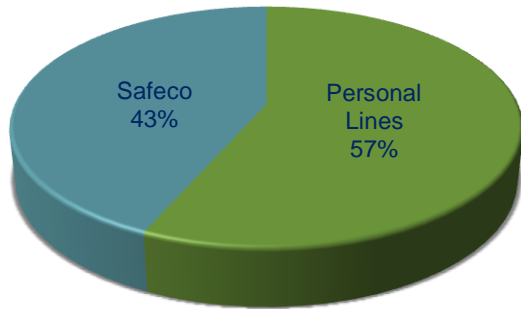
\$ millions	Third Quarter			Year-to-Date		
	2014	2013	Change	2014	2013	Change
<b>NWP</b>	<b>\$4,324</b>	<b>\$4,067</b>	<b>6.3%</b>	<b>\$12,100</b>	<b>\$11,269</b>	<b>7.4%</b>
PTOI before catastrophes, net incurred losses attributable to prior years, and current accident year re-estimation	\$707	\$664	6.5%	\$2,005	\$1,847	8.6%
Catastrophes <sup>3</sup>	(64)	(95)	(32.6)	(979)	(806)	21.5
Net incurred losses attributable to prior years	(5)	(41)	(87.8)	(41)	(51)	(19.6)
Current accident year re-estimation <sup>4</sup>	-	(9)	(100.0)	-	-	-
<b>Pre-tax operating income</b>	<b>\$638</b>	<b>\$519</b>	<b>22.9%</b>	<b>\$985</b>	<b>\$990</b>	<b>(0.5%)</b>
<b>Combined ratio before catastrophes, net incurred losses attributable to prior years, and current accident year re-estimation</b>						
Claims and claim adjustment expense ratio	59.7%	59.5%	0.2	60.2%	59.9%	0.3
Underwriting expense ratio	25.2	25.5	(0.3)	25.3	25.8	(0.5)
<b>Subtotal</b>	<b>84.9%</b>	<b>85.0%</b>	<b>(0.1)</b>	<b>85.5%</b>	<b>85.7%</b>	<b>(0.2)</b>
Catastrophes <sup>3</sup>	1.7	2.7	(1.0)	8.6	7.7	0.9
Net incurred losses attributable to prior years	0.1	1.1	(1.0)	0.4	0.5	(0.1)
Current accident year re-estimation <sup>4</sup>	-	0.2	(0.2)	-	-	-
<b>Total combined ratio</b>	<b>86.7%</b>	<b>89.0%</b>	<b>(2.3)</b>	<b>94.5%</b>	<b>93.9%</b>	<b>0.6</b>



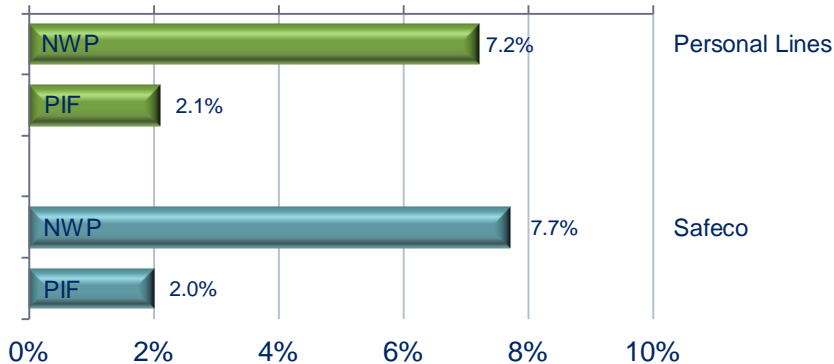
# Personal Insurance NWP Distribution

## NWP by market segment

YTD 2014

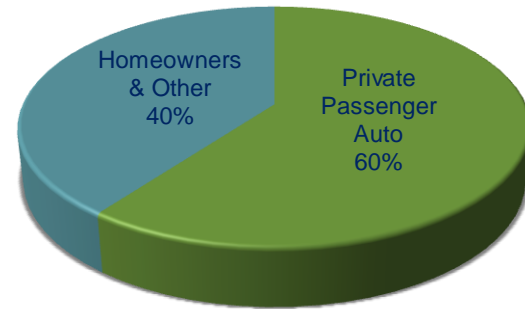


YOY Change

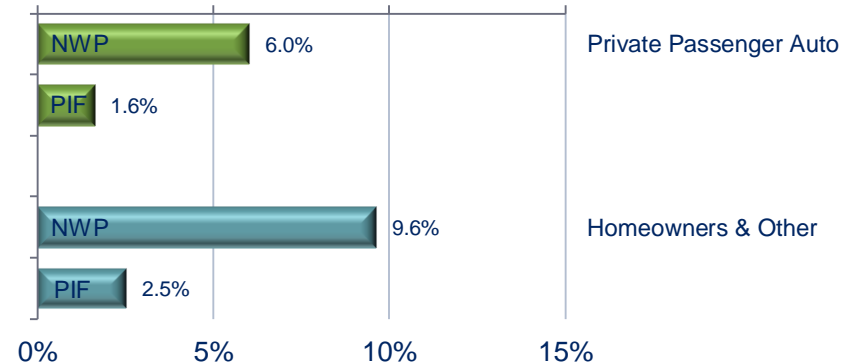


## NWP by line of business

YTD 2014



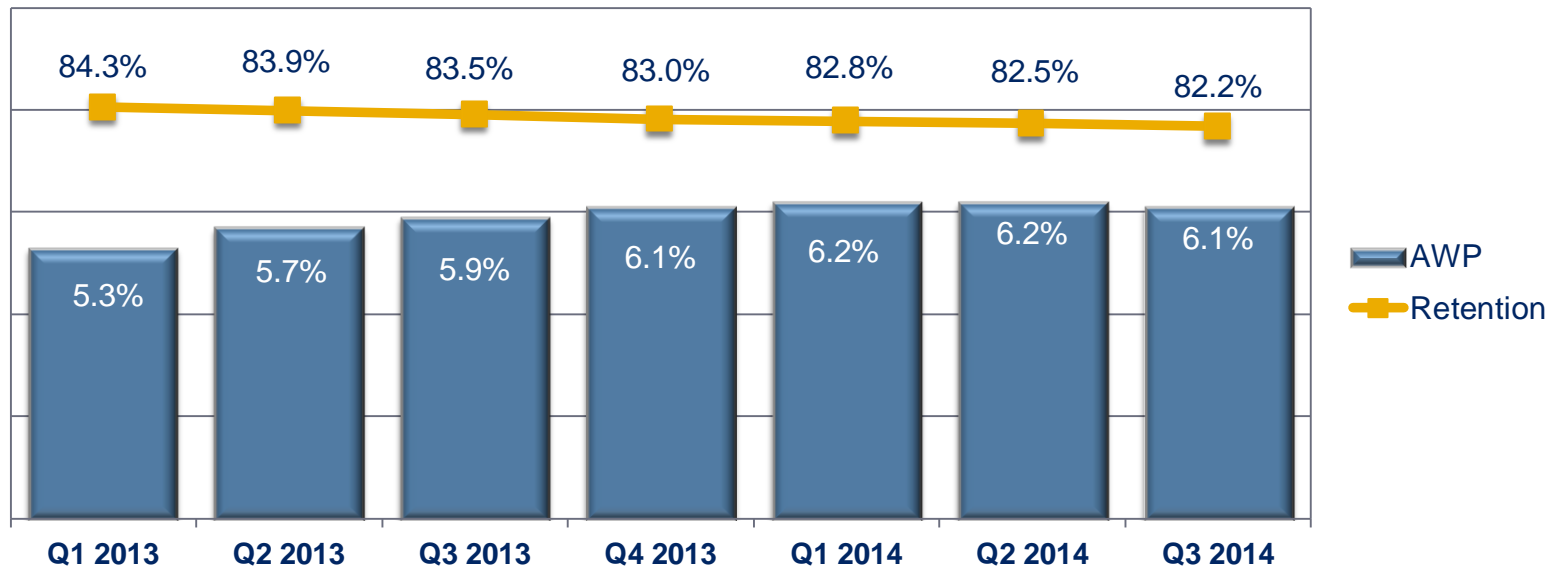
YOY Change



NWP year-to-date in 2014 totaled \$12.1 billion, an increase of 7.4% over the same period in 2013.

YOY: Year-over-Year  
PIF: Policies in Force

# Personal Insurance: Average Written Premium (AWP) & Retention



	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014
<b>Private Passenger Auto</b>							
AWP	4.6%	5.0%	4.9%	4.9%	5.0%	4.9%	4.9%
Retention	83.5%	83.2%	82.9%	82.4%	82.1%	81.8%	81.4%
<b>Homeowners</b>							
AWP	6.1%	6.6%	7.1%	7.4%	7.6%	7.7%	7.3%
Retention	85.1%	84.7%	84.2%	83.6%	83.5%	83.3%	83.1%

\*Note: Figures are reported on a 12-month rolling basis.

# Commercial Insurance

## NWP & PTOI



## Segment Highlights

- As an SBU, 4<sup>th</sup> largest U.S. commercial lines insurer measured by DWP - \$9.4B<sup>5</sup>
- Equipped to underwrite and service a wide spectrum of exposures, from small proprietors to multi-nationals
- Approximately 5,700 active P&C agencies in 12,000 locations
- Sold Summit Holding Southeast, Inc. on April 1, 2014
- Consolidated Individual Life and A&H into SBU in June, 2014; merged with Group Benefits to form new segment: Liberty Mutual Benefits (LMB)

<sup>1</sup>Catastrophes include all current accident year catastrophe losses. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

<sup>2</sup>Net of earned premium attributable to prior years of (\$4) million and \$17 million for the three and nine months ended September 30, 2014 and (\$3) million and (\$15) million for the same periods in 2013. Net of amortization of deferred gains on assumed retroactive reinsurance of \$1 million for the three and nine months ended September 30, 2014 and \$1 million and \$2 million for the same periods in 2013.

<sup>3</sup>Net of earned premium and reinstatement premium attributable to prior years.

<sup>4</sup>Re-estimation of the current accident year loss reserves for the six months ended June 30, 2014 and 2013.

<sup>5</sup>Commercial Lines DWP excludes Individual Life and Accident & Health.

NM=Not Meaningful

## Financial Performance

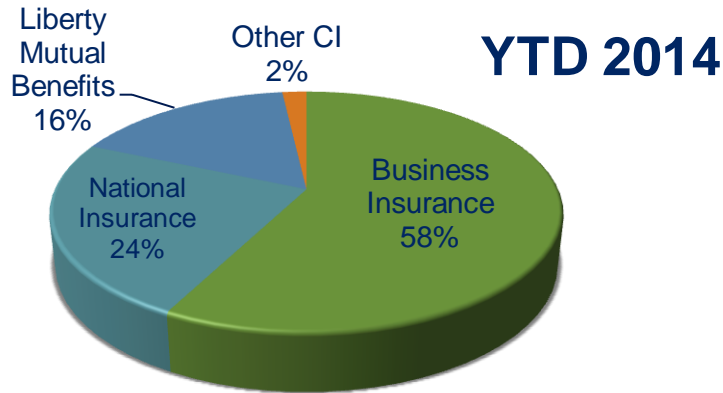
\$ millions	Third Quarter			Year-to-Date		
	2014	2013	Change	2014	2013	Change
NWP	\$2,385	\$2,494	(4.4%)	\$6,860	\$6,946	(1.2%)
PTOI before catastrophes, net incurred losses attributable to prior years, current accident year re-estimation and LP & LLC income	\$341	\$221	54.3%	\$949	\$670	41.6%
Catastrophes <sup>1</sup>	(50)	(42)	19.0	(282)	(184)	53.3
Net incurred losses attributable to prior years <sup>2</sup>	12	27	(55.6)	50	118	(57.6)
Current accident year re-estimation <sup>4</sup>	-	(8)	(100.0)	-	-	-
LP and LLC income	2	-	NM	11	4	175.0
<b>Pre-tax operating income</b>	<b>\$305</b>	<b>\$198</b>	<b>54.0%</b>	<b>\$728</b>	<b>\$608</b>	<b>19.7%</b>

### Combined ratio before catastrophes and net incurred losses attributable to prior years.

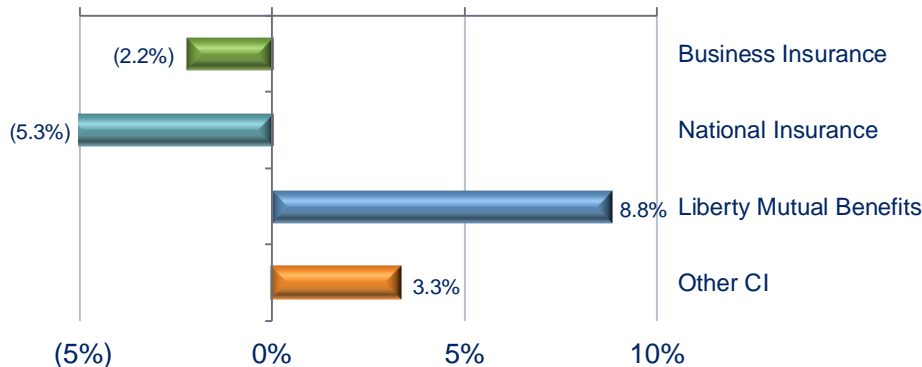
Claims and claim adjustment expense ratio	61.7%	70.3%	(8.6)	63.6%	69.4%	(5.8)
Underwriting expense ratio	33.3	32.2	1.1	32.9	32.7	0.2
Dividend ratio	0.1	0.3	(0.2)	0.1	0.3	(0.2)
<b>Subtotal</b>	<b>95.1%</b>	<b>102.8%</b>	<b>(7.7)</b>	<b>96.6%</b>	<b>102.4%</b>	<b>(5.8)</b>
Catastrophes <sup>1</sup>	2.7	2.1	0.6	5.0	3.1	1.9
Net incurred losses attributable to prior years <sup>3</sup>	(0.6)	(1.4)	0.8	(0.9)	(2.1)	1.2
Current accident year re-estimation <sup>4</sup>	-	0.4	(0.4)	-	-	-
<b>Total combined ratio</b>	<b>97.2%</b>	<b>103.9%</b>	<b>(6.7)</b>	<b>100.7%</b>	<b>103.4%</b>	<b>(2.7)</b>

# Commercial Insurance NWP Distribution

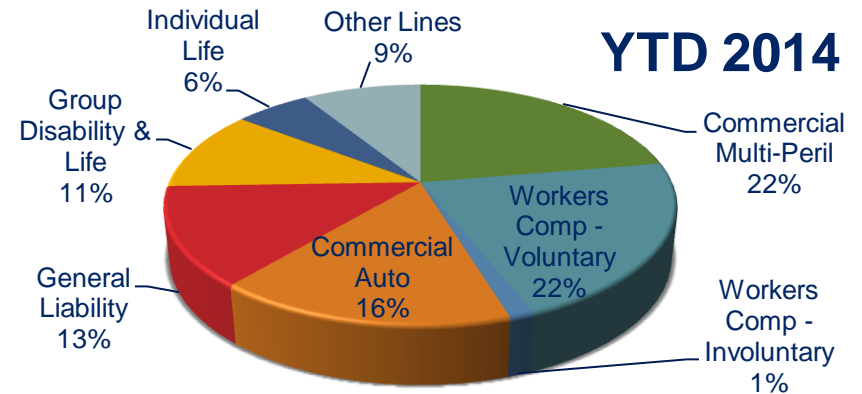
## NWP by market segment



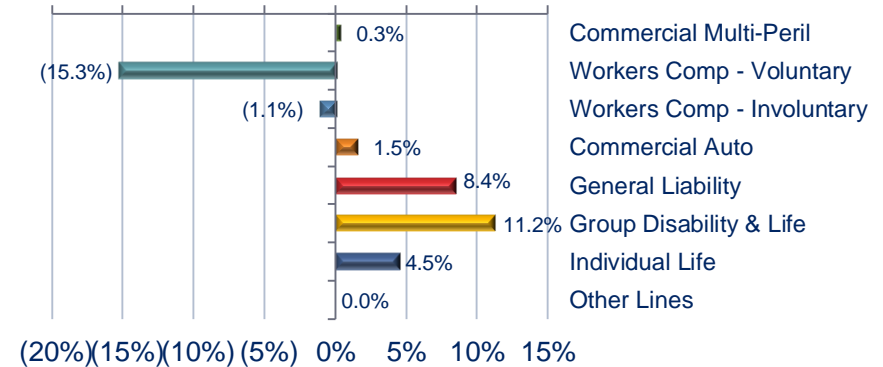
### YOY Change in NWP



## NWP by line of business



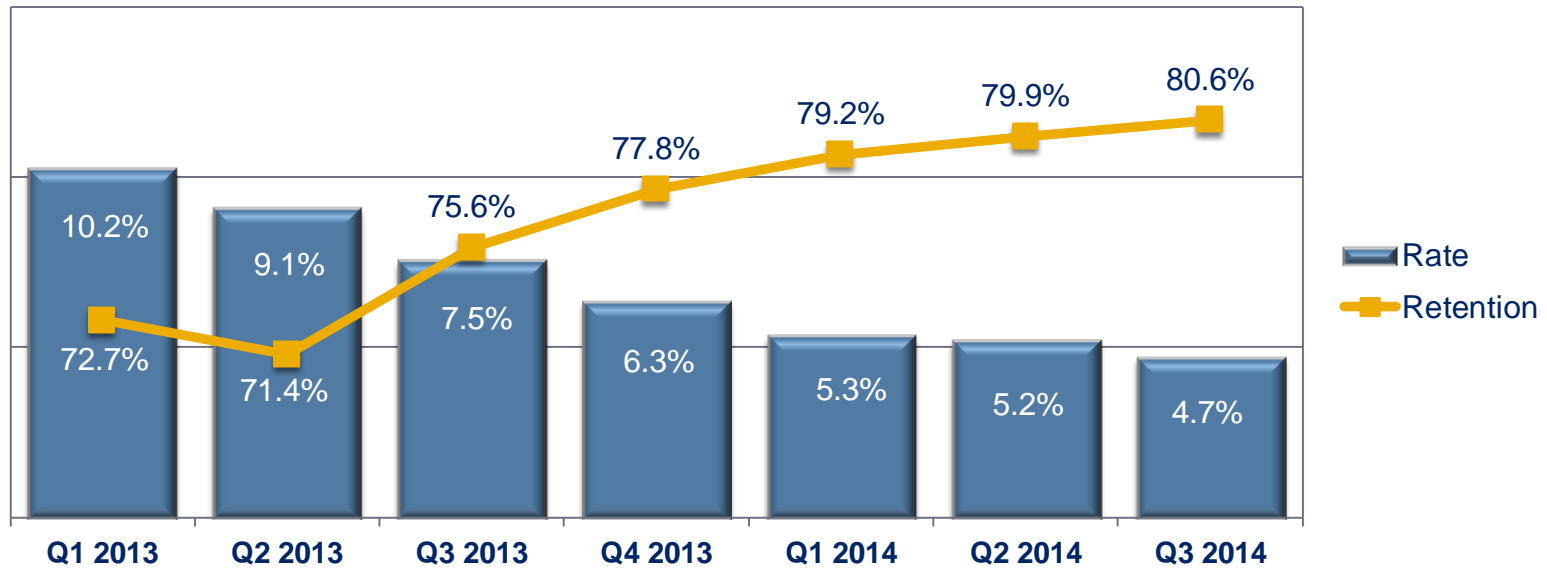
### YOY Change in NWP



NWP year-to-date in 2014 totaled \$6.9 billion, a decrease of 1.2% from the same period in 2013.

YOY: Year-over-Year

# Commercial Insurance: Rate & Retention

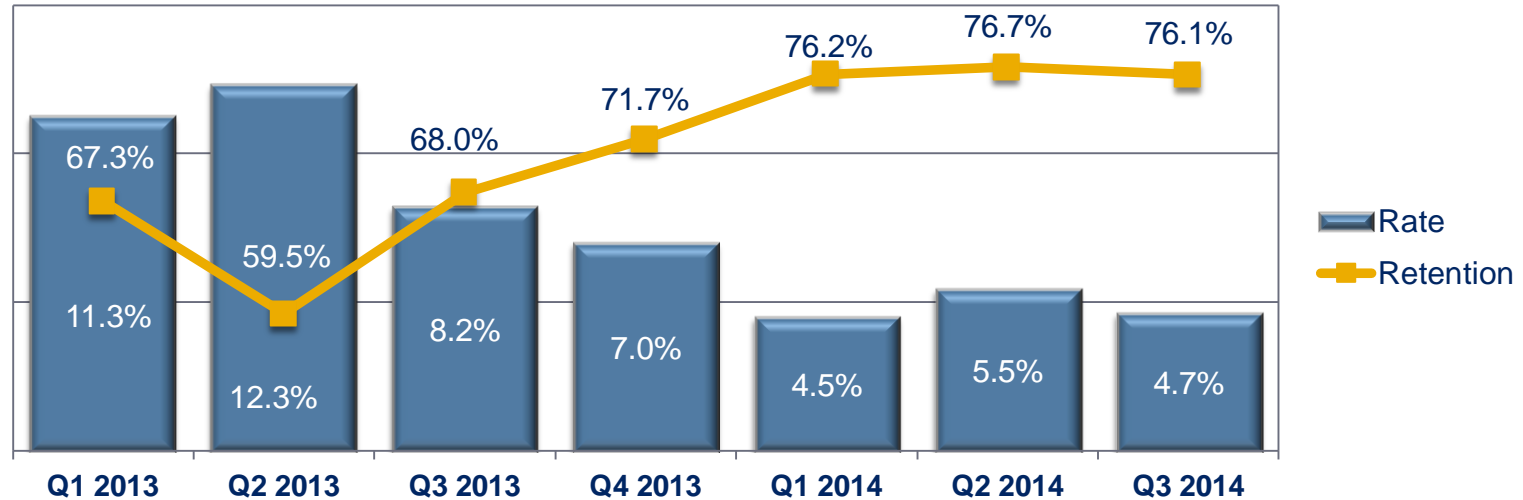


	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	YTD 2013	YTD 2014
<b>Business Insurance</b>									
Rate	10.9%	9.6%	7.8%	6.8%	5.9%	5.8%	5.2%	9.4%	5.6%
Retention	69.7%	70.0%	75.1%	76.4%	78.6%	77.9%	79.2%	71.6%	78.6%
<b>National Insurance</b>									
Rate	8.7%	7.9%	6.8%	5.3%	4.1%	3.7%	3.5%	7.8%	3.8%
Retention	78.3%	74.5%	76.9%	81.0%	80.3%	84.3%	83.9%	76.7%	82.6%
<b>Commercial Insurance P&amp;C</b>									
Rate	10.2%	9.1%	7.5%	6.3%	5.3%	5.2%	4.7%	8.9%	5.1%
Retention	72.7%	71.4%	75.6%	77.8%	79.2%	79.9%	80.6%	73.2%	79.9%

Note: Business Drivers are ex Liberty Mutual Benefits.

# Commercial Insurance: WC Rate & Retention

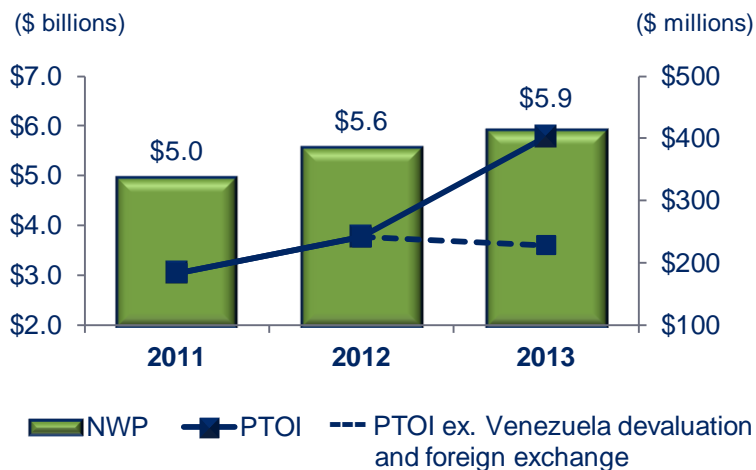
Voluntary NWP of \$1.483 billion is down 15.3% from the third quarter of 2013.



	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	YTD 2013	YTD 2014
<b>Business Insurance</b>									
Rate	13.2%	12.7%	8.3%	7.7%	4.8%	5.9%	5.0%	11.3%	5.2%
Retention	56.1%	55.1%	65.6%	65.5%	71.1%	69.3%	71.4%	59.0%	70.7%
<b>National Insurance</b>									
Rate	8.9%	11.7%	8.1%	6.1%	4.2%	4.9%	4.2%	9.4%	4.4%
Retention	78.8%	66.8%	71.9%	80.3%	80.3%	87.3%	83.0%	73.8%	82.8%
<b>Commercial Insurance P&amp;C</b>									
Rate	11.3%	12.3%	8.2%	7.0%	4.5%	5.5%	4.7%	10.5%	4.8%
Retention	67.3%	59.5%	68.0%	71.7%	76.2%	76.7%	76.1%	65.3%	76.3%

# Liberty International

## NWP & PTOI



## Segment Highlights

- Malaysia provided \$14M of NWP and \$3M of PTOI in Q3 2014 with a combined ratio of 89.7%.
- Venezuela devaluation and foreign exchange favorably impacted PTOI by \$48M in Q3 2014.
- Regional realignment in July.

<sup>1</sup> The combined ratios have been adjusted to exclude the impact of the Venezuela devaluation and foreign exchange.

<sup>2</sup> Catastrophes include all current accident year catastrophe losses for the U.K. and Ireland floods.

Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

Note: The results of Argentina operations are presented as Discontinued Operations on the Consolidated Statements of Income and are no longer included with Liberty International. All prior periods have been restated to reflect the sale.

NM = Not meaningful

## Financial Performance

\$ millions	Third Quarter			Year-to-Date		
	2014 <sup>1</sup>	2013 <sup>1</sup>	Change	2014 <sup>1</sup>	2013 <sup>1</sup>	Change
NWP	\$1,560	\$1,506	3.6%	\$4,296	\$4,228	1.6%
PTOI before catastrophes, net incurred losses attributable to prior years and Venezuela devaluation and foreign exchange	\$36	\$59	(39.0%)	\$88	\$126	(30.2%)
Catastrophes <sup>2</sup>	-	-	-	(9)	-	NM
Net incurred losses attributable to prior years	25	8	NM	54	30	80.0
Venezuela devaluation and foreign exchange	48	52	(7.7)	119	187	(36.4)
<b>Pre-tax operating income</b>	<b>\$109</b>	<b>\$119</b>	<b>(8.4%)</b>	<b>\$252</b>	<b>\$343</b>	<b>(26.5%)</b>

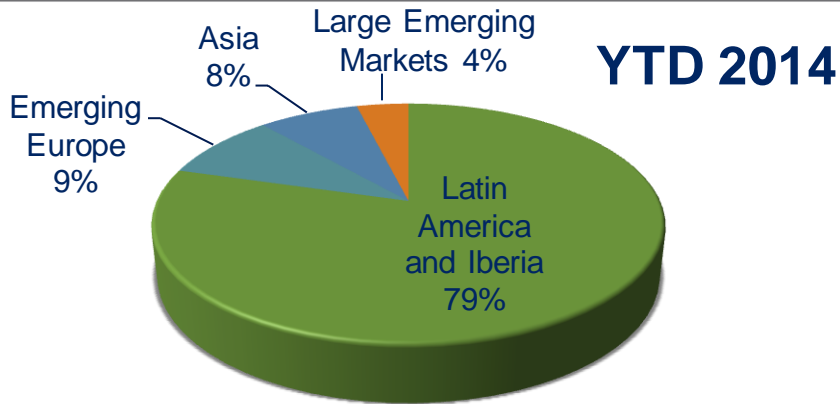
### Combined ratio before catastrophes and net incurred losses attributable to prior years

Claims and claim adjustment expense ratio	66.5%	66.1%	0.4	66.2%	66.1%	0.1
Underwriting expense ratio	37.5	37.0	0.5	38.2	38.0	0.2
<b>Subtotal</b>	<b>104.0%</b>	<b>103.1%</b>	<b>0.9</b>	<b>104.4%</b>	<b>104.1%</b>	<b>0.3</b>
Catastrophes <sup>2</sup>	0.1	-	0.1	0.2	-	0.2
Net incurred losses attributable to prior years	(1.8)	(0.7)	(1.1)	(1.3)	(0.8)	(0.5)
<b>Total combined ratio</b>	<b>102.3%</b>	<b>102.4%</b>	<b>(0.1)</b>	<b>103.3%</b>	<b>103.3%</b>	<b>-</b>

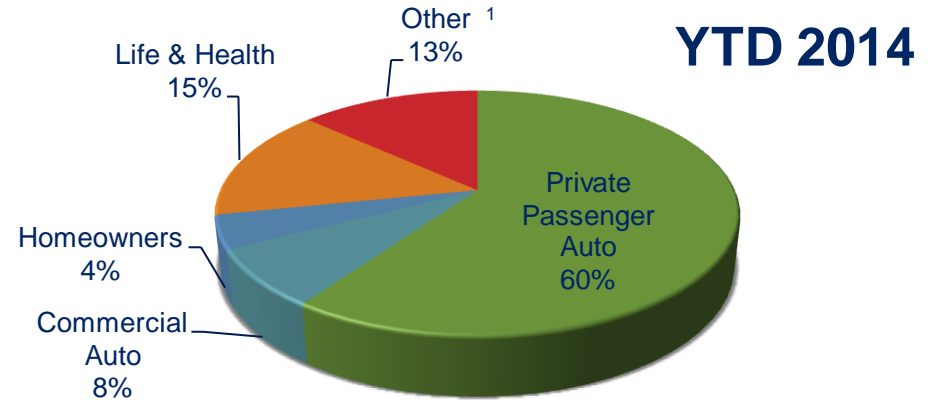


# Liberty International NWP Distribution

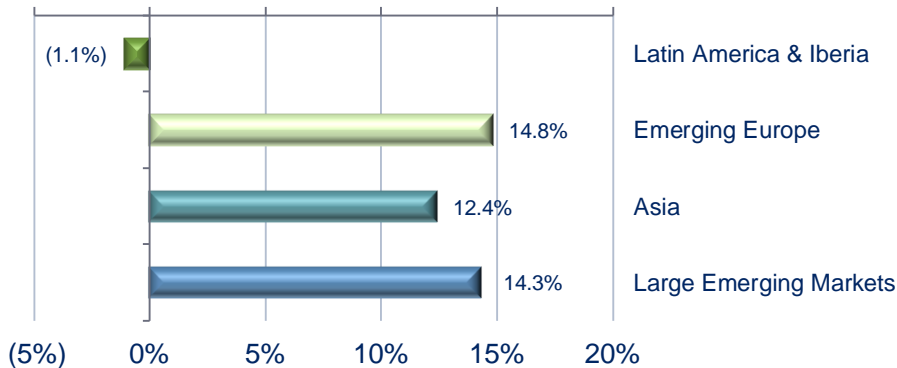
## NWP by market segment



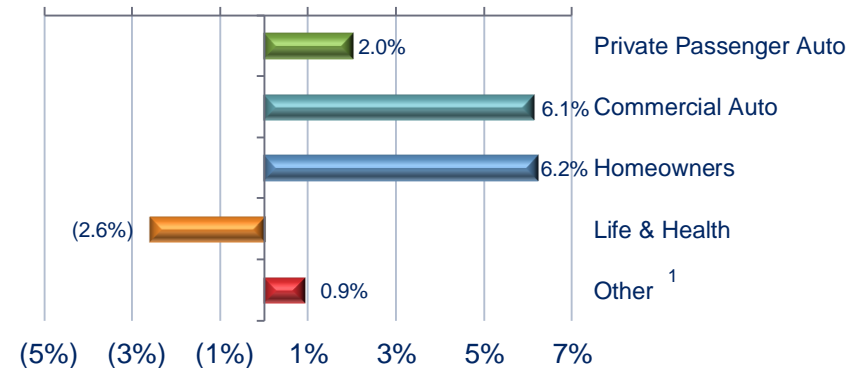
## NWP by line of business



### YOY Change in NWP



### YOY Change in NWP



NWP year-to-date in 2014 totaled \$4.3 billion, an increase of 1.6% (or 24.8%<sup>2</sup> excluding FX) over the same period in 2013.

<sup>1</sup> Premium related to other personal and commercial lines including personal accident, bonds, workers compensation, property and fire, small and medium enterprise and marine and cargo lines of business.

<sup>2</sup> Determined by assuming constant foreign exchange rates between periods.

YOY: Year-over-Year

# Liberty International: Global Presence

(\$ millions)

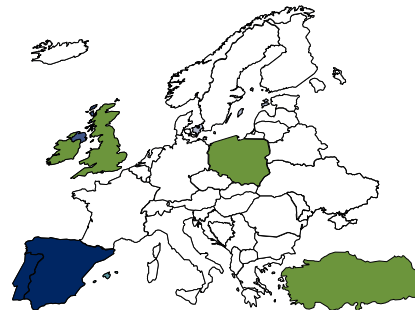
Large Emerging Markets	2014 NWP	P&C Rank	P&C Share
China <sup>1,8</sup>	\$91	5 <sup>th</sup>	0.1%
India <sup>1</sup>	\$25	23 <sup>rd</sup>	0.3%
Russia <sup>5</sup>	\$52	43 <sup>rd</sup>	0.3%

Asia	2014 NWP	P&C Rank	P&C Share
Singapore <sup>9</sup>	\$85	7 <sup>th</sup>	5.1%
Thailand <sup>1</sup>	\$130	9 <sup>th</sup>	3.0%
Vietnam	\$17	10 <sup>th</sup>	2.3%
Malaysia	\$26	14 <sup>th</sup>	3.2%
Hong Kong <sup>3</sup>	\$68	15 <sup>th</sup>	2.0%

Latin America and Iberia	2014 NWP	P&C Rank	P&C Share
Venezuela <sup>1,6,7</sup>	\$1,317	1 <sup>st</sup>	14.6%
Colombia	\$326	3 <sup>rd</sup>	9.8%
Chile	\$124	4 <sup>th</sup>	9.7%
Ecuador <sup>2</sup>	\$52	5 <sup>th</sup>	5.3%
Portugal <sup>2</sup>	\$226	7 <sup>th</sup>	6.4%
Brazil <sup>7</sup>	\$766	9 <sup>th</sup>	2.9%
Spain <sup>1</sup>	\$603	16 <sup>th</sup>	2.1%



Emerging Europe	2014 NWP	P&C Rank	P&C Share
Ireland <sup>4</sup>	\$219	7 <sup>th</sup>	6.8%
Poland <sup>1</sup>	\$78	12 <sup>th</sup>	1.0%
Turkey	\$33	24 <sup>th</sup>	0.6%
Great Britain	\$58	N/A	N/A



Rankings Base – 2014 Net Written Premium (NWP) except where noted:

<sup>1</sup> 2014 Gross Written Premium

<sup>2</sup> 2014 Direct Written Premium

<sup>3</sup> 2013 Net Written Premium

<sup>4</sup> 2013 Gross Written Premium

<sup>5</sup> 2013 Direct Written Premium

<sup>6</sup> Excludes government owned companies

<sup>7</sup> Reflects combined P&C and life markets

<sup>8</sup> Ranking based on non-domestic companies including Mandatory Third Party Liability

<sup>9</sup> Singapore's market rank reflects 2013 GWP, but market share reflects 2013 NWP

Rankings are based on the most recent financial data available, which varies by country.

# Global Specialty

## NWP & PTOI



## Segment Highlights

- 3<sup>rd</sup> largest Lloyd's Syndicate
- 2<sup>nd</sup> largest surety writer in the U.S.
- Business sold through broker and independent agent channels
- A premier specialty casualty lines underwriter
- Mexico acquisition closed on July 8, 2014

## Financial Performance

\$ millions	Third Quarter			Year-to-Date		
	2014	2013	Change	2014	2013	Change
NWP	\$1,201	\$1,226	(2.0%)	\$3,974	\$3,885	2.3%
PTOI before catastrophes and net incurred losses attributable to prior years	\$153	\$180	(15.0%)	\$493	\$534	(7.7%)
Catastrophes <sup>1</sup>	(10)	(35)	(71.4)	(31)	(95)	(67.4)
Net incurred losses attributable to prior years <sup>2</sup>	(23)	22	NM	(39)	(28)	39.3
<b>Pre-tax operating income</b>	<b>\$120</b>	<b>\$167</b>	<b>(28.1%)</b>	<b>\$423</b>	<b>\$411</b>	<b>2.9%</b>

### Combined ratio before catastrophes and net incurred losses attributable to prior years

Claims and claim adjustment expense ratio	61.1%	63.0%	(1.9)	59.5%	61.7%	(2.2)
Underwriting expense ratio	32.5	28.2	4.3	32.7	28.9	3.8
Dividend ratio	0.2	0.2	-	0.2	0.2	-
<b>Subtotal</b>	<b>93.8%</b>	<b>91.4%</b>	<b>2.4</b>	<b>92.4%</b>	<b>90.8%</b>	<b>1.6</b>
Catastrophes <sup>1</sup>	0.8	2.7	(1.9)	0.9	2.7	(1.8)
Net incurred losses attributable to prior years <sup>2</sup>	2.0	(1.7)	3.7	1.1	0.8	0.3
<b>Total combined ratio</b>	<b>96.6%</b>	<b>92.4%</b>	<b>4.2</b>	<b>94.4%</b>	<b>94.3%</b>	<b>0.1</b>

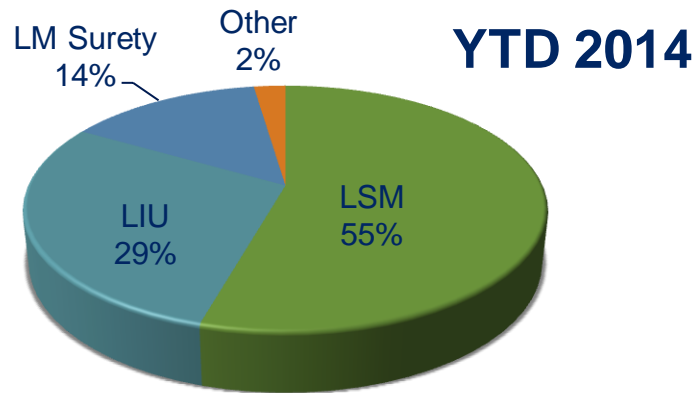
<sup>1</sup> Catastrophes include all current accident year catastrophe losses for severe storms in the U.S., U.K. and Ireland floods, Windstorm Ela, Cyclone Oswald, Central European floods, Alberta Floods, and German Hailstorm. Catastrophe losses, where applicable, include the impact of accelerated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

<sup>2</sup> Net of earned premium and reinstatement premium attributable to prior years of \$1 million and \$9 million for the three and nine months ended September 30, 2014 and (\$4) million and \$21 million for the same periods in 2013.

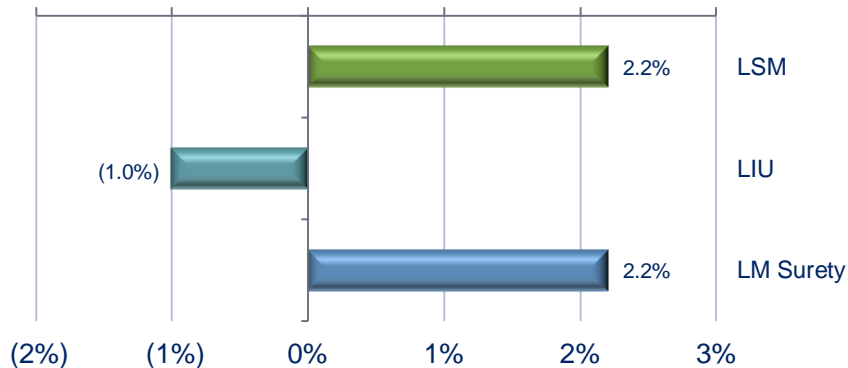
<sup>3</sup> NM = Not meaningful

# Global Specialty NWP Distribution

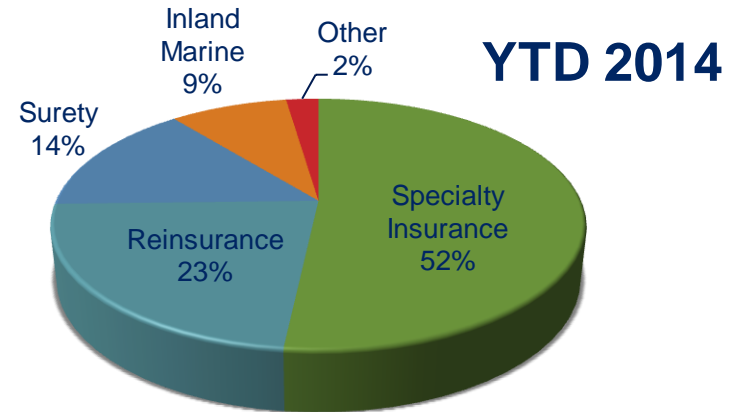
## NWP by market segment



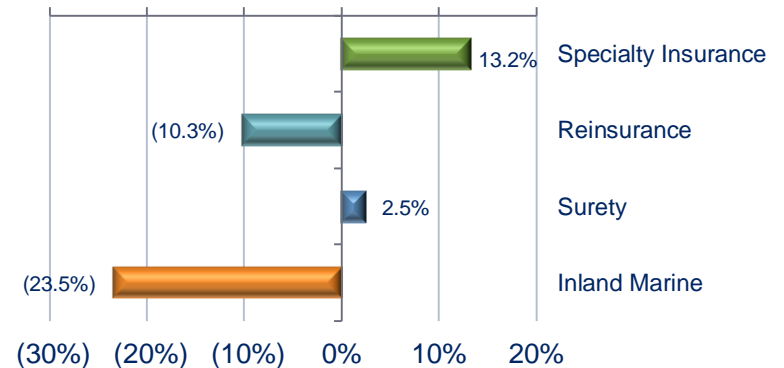
### YOY Change in NWP



## NWP by line of business



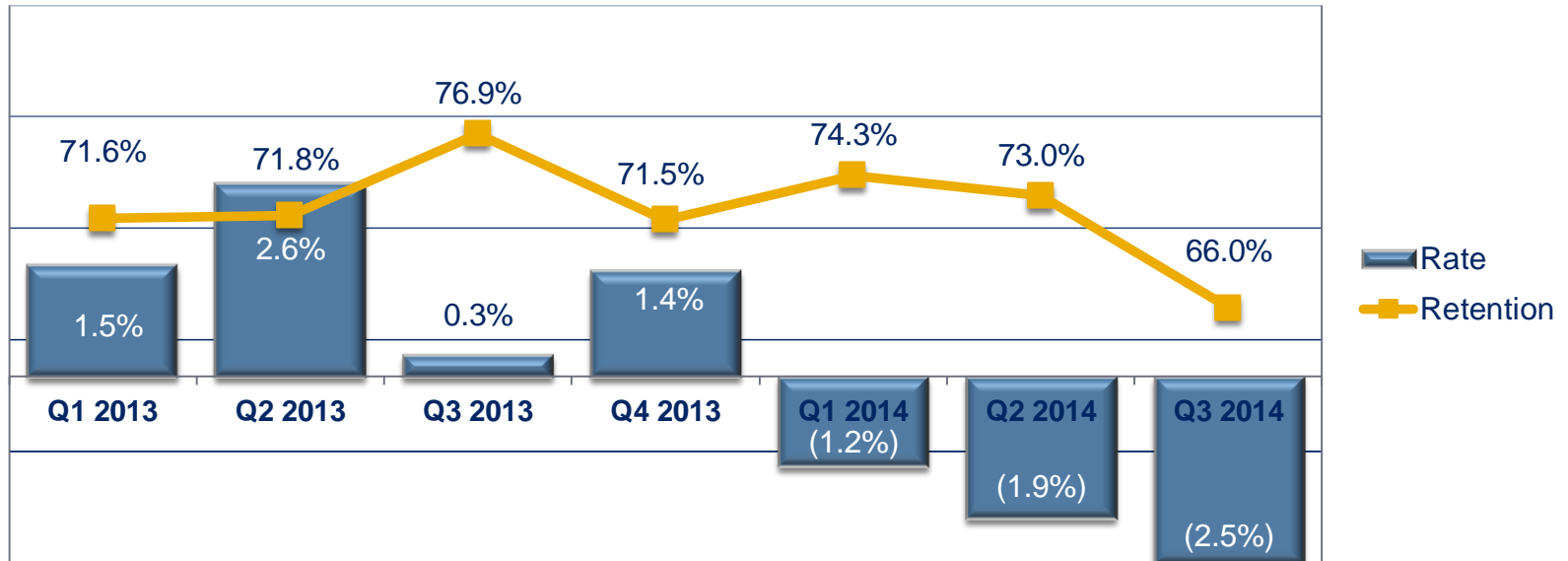
### YOY Change in NWP



NWP year-to-date in 2014 totaled \$4.0 billion, an increase of 2.3% over the same period in 2013.

YOY: year-over-year

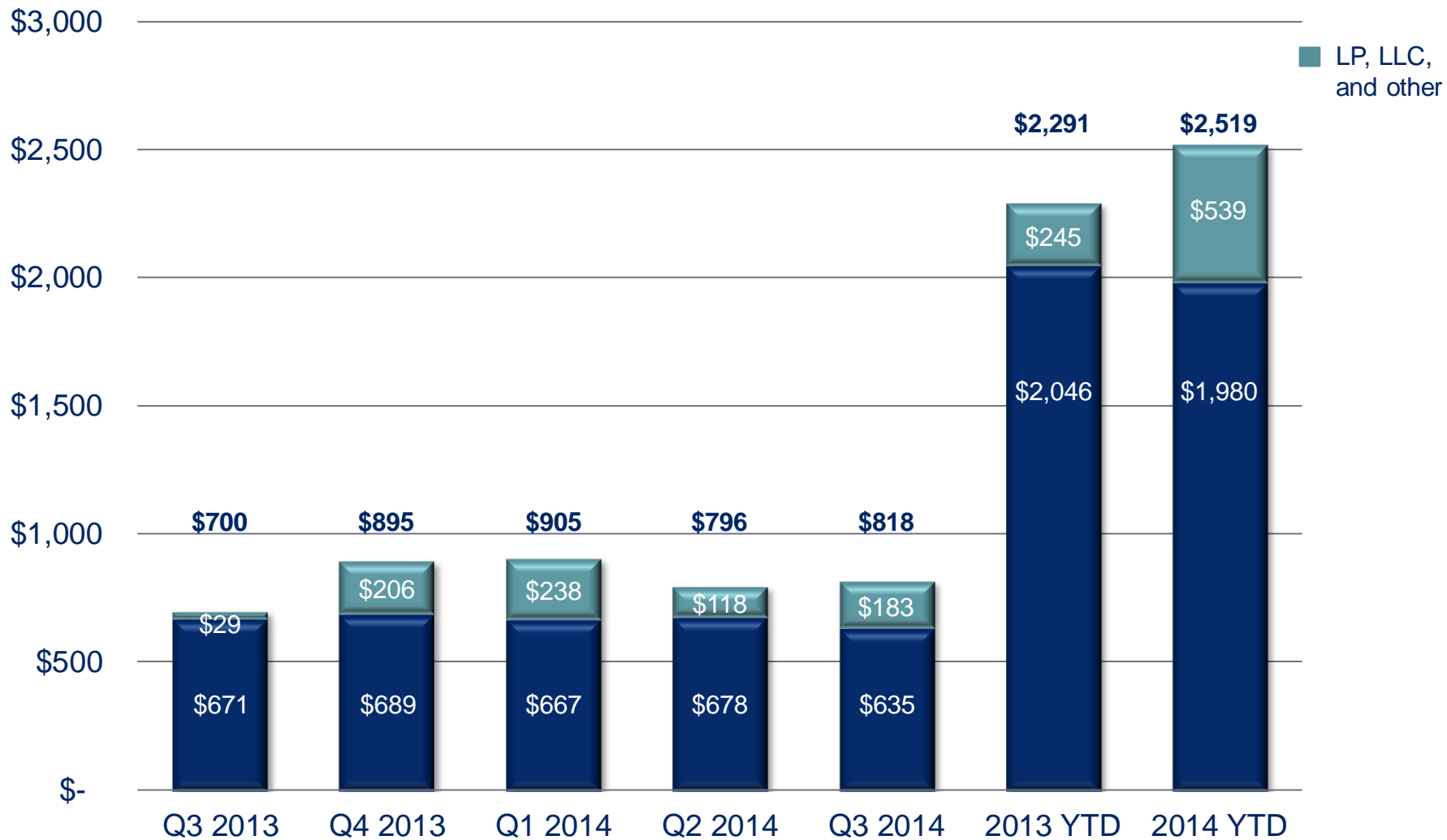
# Global Specialty: Rate & Retention



	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	YTD 2013	YTD 2014
<b>Specialty Insurance</b>									
Rate	1.2%	2.8%	0.7%	2.0%	0.8%	(1.2%)	(1.5%)	1.8%	(0.6%)
Retention	65.6%	70.5%	78.5%	71.7%	70.2%	70.5%	63.2%	71.0%	72.2%
<b>Reinsurance</b>									
Rate	1.0%	1.9%	(0.8%)	(3.3%)	(4.4%)	(5.1%)	(6.3%)	0.9%	(4.9%)
Retention	79.6%	78.3%	71.5%	70.5%	80.9%	85.6%	77.1%	77.7%	81.5%

# Net Investment Income

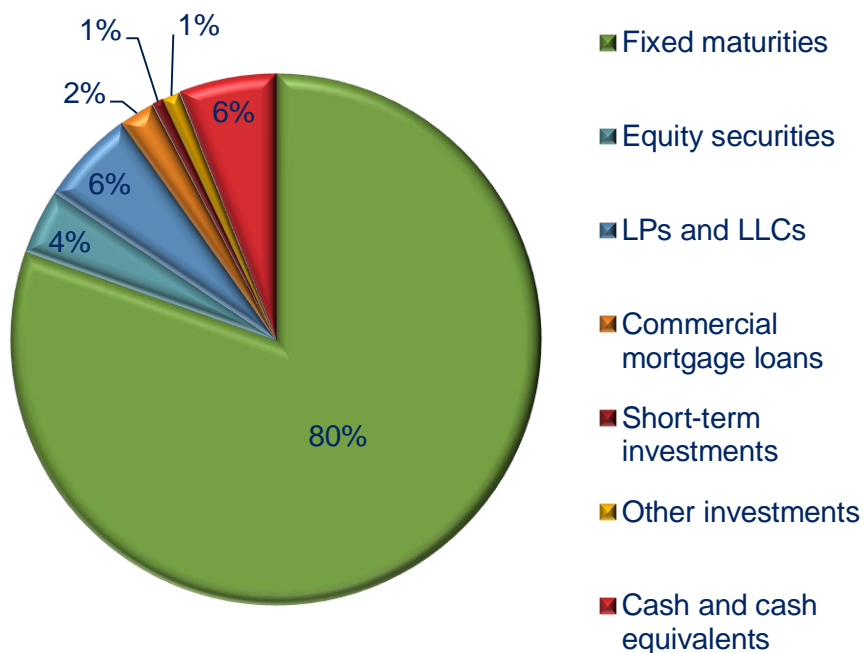
(\$ millions)



The above chart contains net investment income attributable to discontinued operations.

# Investment Mix and Capitalization

## Invested Assets



Total invested assets as of September 30, 2014: \$78.822 billion

(\$ millions)	September 30, 2014	December 31, 2013
Long-term debt	\$6,939	\$6,285
Adjusted debt <sup>1</sup>	\$5,939	\$5,285
Total equity	\$20,621	\$19,012
Less: AOCI	<u>\$994</u>	<u>\$640</u>
Total equity ex. AOCI	\$19,627	\$18,372
Total capital ex. AOCI	\$26,566	\$24,657
Adjusted debt-to-total capitalization (ex. AOCI)	22.4%	21.4%
Statutory surplus	\$18,024	\$17,508

<sup>1</sup> Assumes that the Series A and B Junior Subordinated Notes receive 100% equity credit, as per S&P.



# Holding Company Interest Coverage

(\$ millions)	
Preferred dividends	\$91
Remaining dividend capacity	<u>\$1,496</u>
2014 dividend capacity <sup>1</sup>	\$1,587
Estimated PTOI from LMG service companies/fees	<u>\$366</u>
Total available funding	\$1,953
Interest expense <sup>2</sup>	\$377
<b>Holding company interest coverage</b>	<b>5.2x</b>

<sup>1</sup> Represents the estimated maximum allowable dividend without prior regulatory approval in the state of domicile. Available dividend capacity is calculated as 2014 dividend capacity less dividends paid for the preceding twelve months. Dividends paid October 1, 2013 through September 30, 2014 were \$88 million.

<sup>2</sup> Represents the expected run-rate for interest expense at Liberty Mutual Group Inc., as of September 30, 2014. This table does not incorporate events subsequent to that date.

# Reconciliation of Statement of Income to Combined Ratio

For the three months ended September 30, 2014					\$ millions
Combined ratio components:	Statement of income	Presentation reclass <sup>1</sup>	Less: Life insurance <sup>2</sup>	Less: Non underwriting expenses and other adjustments <sup>3</sup>	Combined Ratio
Premiums earned	\$8,949		(\$407)	(\$111)	\$8,431
Benefits, claims and claim adjustment expenses	6,032		(444)	(3)	5,585
Operating costs and expenses	1,824	(6)	(95)	(366)	1,357
Amortization of deferred policy acquisition costs	1,231		(14)	(17)	1,200
Dividends to policyholders	N/A	6	(2)	-	4
<b>Total combined ratio</b>					<b>96.6%</b>

For the three months ended September 30, 2013					\$ millions
Combined ratio components:	Statement of income	Presentation reclass <sup>1</sup>	Less: Life insurance <sup>2</sup>	Less: Non underwriting expenses and other adjustments <sup>3</sup>	Combined Ratio
Premiums earned	\$8,754		(\$400)	(\$64)	\$8,290
Benefits, claims and claim adjustment expenses	6,152		(403)	(7)	5,742
Operating costs and expenses	1,623	(8)	(78)	(261)	1,276
Amortization of deferred policy acquisition costs	1,196		(10)	(3)	1,183
Dividends to policyholders	N/A	8	(2)	(3)	3
<b>Total combined ratio</b>					<b>99.0%</b>

<sup>1</sup> Dividends to policyholders

<sup>2</sup> Life and annuity business excluded from P&C combined ratio

<sup>3</sup> Includes adjustments for Venezuela devaluation, non-underwriting expenses primarily related to the Company's energy production and service operations, fee income, and installment charges.

# Reconciliation of Statement of Income to Combined Ratio

For the nine months ended September 30, 2014					\$ millions
Combined ratio components:	Statement of income	Presentation reclass <sup>1</sup>	Less: Life insurance <sup>2</sup>	Less: Non underwriting expenses and other adjustments <sup>3</sup>	Combined Ratio
Premiums earned	\$26,349		(\$1,207)	(\$362)	\$24,780
Benefits, claims and claim adjustment expenses	18,210		(1,318)	(11)	16,881
Operating costs and expenses	5,436	(15)	(272)	(1,099)	4,050
Amortization of deferred policy acquisition costs	3,651		(50)	(50)	3,551
Dividends to policyholders	N/A	15	(5)	-	10
<b>Total combined ratio</b>					<b>98.8%</b>

For the nine months ended September 30, 2013					\$ millions
Combined ratio components:	Statement of income	Presentation reclass <sup>1</sup>	Less: Life insurance <sup>2</sup>	Less: Non underwriting expenses and other adjustments <sup>3</sup>	Combined Ratio
Premiums earned	\$25,358		(\$1,141)	(\$246)	\$23,971
Benefits, claims and claim adjustment expenses	17,776		(1,165)	(51)	16,560
Operating costs and expenses	4,858	(36)	(233)	(769)	3,820
Amortization of deferred policy acquisition costs	3,513		(46)	(17)	3,450
Dividends to policyholders	N/A	36	(5)	(8)	23
<b>Total combined ratio</b>					<b>99.5%</b>

<sup>1</sup> Dividends to policyholders

<sup>2</sup> Life and annuity business excluded from P&C combined ratio

<sup>3</sup> Includes adjustments for Venezuela devaluation, non-underwriting expenses primarily related to the Company's energy production and service operations, fee income, and installment charges

## Third Quarter and Subsequent Events

- ❖ On July 24, 2014, Liberty Mutual Group Inc. (“LMGI”) issued \$750 million of Senior Notes due 2044 (the “2044 Notes”). On October 28, 2014, LMGI issued an additional \$300 million of the 2044 Notes. Interest is payable semi-annually at a fixed rate of 4.85%. The 2044 Notes mature on August 1, 2044.
- ❖ On July 17, 2014, the Company reached a definitive agreement with NICO, a subsidiary of Berkshire Hathaway Inc., on a combined aggregate adverse development cover for substantially all of the Company’s U.S. workers compensation, asbestos and environmental (“A&E”) liabilities, attaching at approximately \$12.5 billion of combined aggregate reserves, with an aggregate limit of \$6.5 billion and sublimits of \$3.1 billion for A&E liabilities and \$4.507 billion for certain workers compensation liabilities.
- ❖ On July 16, 2014, the Company purchased from Uni.Asia Capital Sdn Bhd its 68.09% stake in Uni.Asia General Insurance Berhad (“Uni.Asia”), a Malaysian property-casualty insurer. On September 8, 2014, the Company purchased an additional 18.68% stake in Uni.Asia. The Company now owns 86.77% of Uni.Asia.
- ❖ On July 8, 2014, the Company acquired Mexican surety company Primero Fianzas from Grupo Valores Operativos Monterrey, a private investor group.

# 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, LMIC, LMFIC and EICOW, 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).

## Additional Notes

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 website at [www.libertymutual.com/investors](http://www.libertymutual.com/investors).

The Company's discussions related to net income are presented in conformity with U.S. generally accepted accounting principles ("GAAP") on an after-tax basis. All other discussions are presented on a pre-tax GAAP basis, unless otherwise noted. Further, the Company notes that it may make material information regarding the Company available to the public, from time to time, via the Company's Investor Relations website at [www.libertymutual.com/investors](http://www.libertymutual.com/investors) (or any successor site).

The Company's annual audited financial statements and the Report of Independent Registered Public Accounting Firm on the Effectiveness of Internal Control Over Financial Reporting are also published on the Company's Investor Relations website at [www.libertymutual.com/investors](http://www.libertymutual.com/investors).



**Liberty Mutual<sup>®</sup>**

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**INSURANCE**