Liberty Mutual Insurance Reports Third Quarter 2015 Results

BOSTON, Mass., December 9, 2015 – Liberty Mutual Holding Company Inc. and its subsidiaries (collectively "LMHC" or the "Company") today reported net (loss) income attributable to LMHC of ($427) million and $103 million for the three and nine months ended September 30, 2015, versus $605 million and $1.261 billion in the same periods in 2014. Including $5 million and $14 million of net losses attributable to non-controlling interest, consolidated net (loss) income for the three and nine months ended September 30, 2015 was ($432) million and $89 million, respectively.

"Our continuing strong operating performance was masked in the third quarter by a nonrecurring loss of approximately $700 million from the deconsolidation of our Venezuelan subsidiary and energy investment related losses," said David H. Long, Liberty Mutual Insurance Chairman and CEO. "Otherwise, combined ratio for the group improved 1.2 points to 95.6%. The consolidated net loss for the quarter, including the nonrecurring charge, was $432 million."

Third Quarter Highlights

- Revenues for the three months ended September 30, 2015 were $9.312 billion, a decrease of $237 million or 2.5% from the same period in 2014.
- Net written premium ("NWP") for the three months ended September 30, 2015 was $8.776 billion, a decrease of $179 million or 2.0% from the same period in 2014.
- Net investment income for the three months ended September 30, 2015 was $759 million, a decrease of $45 million or 5.6% from the same period in 2014.
- Pre-tax operating income ("PTOI") before partnerships, LLC and other equity method income for the three months ended September 30, 2015 was $677 million, an increase of $84 million or 14.2% over the same period in 2014.
- PTOI for the three months ended September 30, 2015 was $723 million, a decrease of $65 million or 8.2% from the same period in 2014.
- Catastrophe losses for the three months ended September 30, 2015 were $239 million, a decrease of $51 million or 17.6% from the same period in 2014.
- Discontinued operations, net of tax for the three months ended September 30, 2015 were ($744) million versus $66 million in the same period in 2014. Effective September 30, 2015, the Company determined it was appropriate to deconsolidate the Venezuelan operations, and has classified the Venezuelan operations as discontinued operations and held for sale.
- Net operating income for the three months ended September 30, 2015 was $485 million, a decrease of $100 million or 17.1% from the same period in 2014.
- Net loss attributable to LMHC for the three months ended September 30, 2015 was $427 million versus $605 million net income attributable to LMHC in the same period in 2014, reflecting the deconsolidation of our Venezuelan subsidiary and energy investment related losses.
- The consolidated combined ratio before catastrophes[1] and net incurred losses attributable to prior years[2] for the three months ended September 30, 2015 was 93.5%, an increase of 1.3 points over the same period in 2014. Including the impact of catastrophes and net incurred losses attributable to prior years, the Company's combined ratio for the three months ended September 30, 2015 improved 1.2 points to 95.6%.

[1]2015 catastrophes include all current accident year catastrophe losses for severe storms in the U.S. and New South Wales, Cyclone Niklas, Chile earthquake and Chile floods. 2014 catastrophes include all current accident year catastrophe losses for severe storms in the U.S., U.K. and Ireland floods and Hailstorm Ela. 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 (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.

- Cash flow provided by operations for the three months ended September 30, 2015 was $1.519 billion, compared to cash used of $1.587 billion for the same period in 2014.

Year-to-date Highlights

- Revenues for the nine months ended September 30, 2015 were $28.282 billion, a decrease of $38 million or 0.1% from the same period in 2014.
- NWP for the nine months ended September 30, 2015 was $26.417 billion, an increase of $316 million or 1.2% over the same period in 2014.
- Net investment income for the nine months ended September 30, 2015 was $2.067 billion, a decrease of $391 million or 15.9% from the same period in 2014.
- PTOI before partnerships, LLC and other equity method income for the nine months ended September 30, 2015 was $1.375 billion, an increase of $91 million or 7.1% over the same period in 2014.
- PTOI for the nine months ended September 30, 2015 was $1.415 billion, a decrease of $468 million or 24.9% from the same period in 2014.
- Catastrophe losses for the nine months ended September 30, 2015 were $1.535 billion, an increase of $83 million or 5.7% over the same period in 2014.
- Discontinued operations, net of tax for the nine months ended September 30, 2015 were ($909) million versus ($119) million in the same period in 2014. Effective September 30, 2015, the Company determined it was appropriate to deconsolidate the Venezuelan operations, and has classified the Venezuelan operations as discontinued operations and held for sale.
- Net operating income for the nine months ended September 30, 2015 was $997 million, a decrease of $391 million or 28.2% from the same period in 2014.
- Net income attributable to LMHC for the nine months ended September 30, 2015 was $103 million, a decrease of $1.158 billion or 91.8% from the same period in 2014, reflecting the deconsolidation of our Venezuelan subsidiary and energy investment related losses.
- The consolidated combined ratio before catastrophes and net incurred losses attributable to prior years for the nine months ended September 30, 2015 was 92.7%, an increase of 0.1 points over the same period in 2014. Including the impact of catastrophes and favorable net incurred losses attributable to prior years, the Company’s combined ratio for the nine months ended September 30, 2015 improved 0.6 points to 98.5%.
- Cash flow provided by operations for the nine months ended September 30, 2015 was $2.653 billion, compared to cash used of $379 million for the same period in 2014.

Financial Condition as of September 30, 2015

- Total assets were $122.311 billion as of September 30, 2015, a decrease of $1.982 billion or 1.6% from December 31, 2014.

- Total equity was $19.082 billion as of September 30, 2015, a decrease of $1.209 billion or 6.0% from December 31, 2014.

Subsequent Events

On December 2, 2015, the Company received regulatory approval for the Compañia de Seguros Generales Penta Security S.A., acquisition in Chile. The transaction still remains subject to certain closing conditions.

On November 29, 2015, the Company through its affiliate entered into a stock purchase agreement for the sale of the Venezuelan operations. The transaction is subject to certain conditions and the receipt of appropriate regulatory approvals.

Consolidated Net Operating Income for the Three and Nine Months Ended September 30, 2015 and 2014:

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Net operating income	$485	$585	(17.1%)	$997	$1,388	(28.2%)
Net realized (losses) gains, net of tax	(167)	(27)	NM	16	11	45.5
Loss on extinguishment of debt, net of tax	(1)	(19)	(94.7)	(1)	(19)	(94.7)
Discontinued operations, net of tax	(744)	66	NM	(909)	(119)	NM
Net (loss) income attributable to LMHC	($427)	$605	NM	$103	$1,261	(91.8%)

NM = Not Meaningful

Consolidated Results of Operations for the Three and Nine Months Ended September 30, 2015 and 2014:

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Revenues	$9,312	$9,549	(2.5%)	$28,282	$28,320	(0.1%)
PTOI before catastrophes, net incurred losses attributable to prior years, and partnerships, LLC and other equity method income[1]	$849	$968	(12.3%)	$2,741	$2,814	(2.6%)
Catastrophes[2]	(239)	(290)	(17.6)	(1,535)	(1,452)	5.7
Net incurred losses attributable to prior years:						
- Asbestos & environmental[3]	(2)	(111)	(98.2)	(4)	(113)	(96.5)
- All other[4,5]	69	26	165.4	173	35	NM
PTOI before partnerships, LLC and other equity method income	677	593	14.2	1,375	1,284	7.1
Partnerships, LLC and other equity method income	46	195	(76.4)	40	599	(93.3)
PTOI	723	788	(8.2)	1,415	1,883	(24.9)
Net realized (losses) gains	(256)	(41)	NM	22	13	69.2
Loss on extinguishment of debt	(1)	(29)	(96.6)	(1)	(29)	(96.6)
Pre-tax income	466	718	(35.1)	1,436	1,867	(23.1)
Income tax expense	154	183	(15.8)	438	506	(13.4)
Consolidated net income from continuing operations	312	535	(41.7)	998	1,361	(26.7)
Discontinued operations, net of tax	(744)	66	NM	(909)	(119)	NM
Consolidated net (loss) income	(432)	601	NM	89	1,242	(92.8)
Less: Net loss attributable to non-controlling interest	(5)	(4)	25.0	(14)	(19)	(26.3)
Net (loss) income attributable to LMHC	($427)	$605	NM	$103	$1,261	(91.8%)
Cash flow provided by (used in) operations	$1,519	($1,587)	NM	$2,653	($379)	NM

1 Partnerships, LLC and other equity method income includes limited partnerships ("LP"), limited liability companies ("LLC") and other equity method income within net investment income in the accompanying Consolidated Statements of Operations and revenue and expenses from the production and sale of oil and gas.

2 2015 catastrophes include all current accident year catastrophe losses for severe storms in the U.S. and New South Wales, Cyclone Niklas, Chile earthquake and Chile floods. 2014 catastrophes include all current accident year catastrophe losses for severe storms in the U.S., U.K. and Ireland floods and Hailstorm Ela. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

3 Gross of the NICO Reinsurance Transaction.

4 The nine months ended September 30, 2015 include a one-time benefit of $91 million due to a reduction in the estimated prior years' liability for state assessments related to workers compensation.

5 Net of earned premium and reinstatement premium attributable to prior years of $1 million and $6 million for the three and nine months ended September 30, 2015 and ($2) million and $10 million for the same periods in 2014. Net of amortization of deferred gains on retroactive reinsurance of $1 million and $3 million for the three and nine months ended September 30, 2015 and 2014.

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, 2015 are available on the Company's Investor Relations web site at www.libertymutualgroup.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 2014 direct written premium. The Company also ranks 78th on the Fortune 100 list of largest corporations in the U.S. based on 2014 revenue. As of December 31, 2014, LMHC had $124.293 billion in consolidated assets[1], $104.002 billion in consolidated liabilities[1], and $37.721 billion in annual consolidated revenue[1].

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 the SBUs, 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.libertymutualgroup.com/investors.

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 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; 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

[1] Reflects the 2015 adoption of the Financial Accounting Standards Board issued Accounting Standards Update 2014-01, *Accounting for Investments in Qualified Affordable Housing Projects* and the deconsolidation of the Venezuelan operations, and the classification of the Venezuelan operations as discontinued operations and held for sale.

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.libertymutualgroup.com/investors. The Company undertakes no obligation to update these forward looking statements.

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